



Investment

Partner Content: Capitalising on innovation is catching family office interest

Family Capital

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Few can doubt technology has changed the corporate world forever. But fewer still anticipate the future impact of a digital revolution which is continuing to pick up speed, according to Nels Wangensteen and Ingrid Yin, Ph.D.,

co-founders of MayTech Global Investments, a US boutique asset management firm.

They know about the importance of staying ahead of the curve. According to a first-quarter 2019 presentation, their global equity strategy delivered an annualized top-percentile return of 13.9%, net of fees, against 4.7% from the MSCI all-country index between inception in June 2008 and March 2019. In the six quarters when markets have fallen by a tenth or more, their strategy only lost 8.5%, against 15.2% from the index.

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Family offices have been MayTech's biggest customers, accounting for \$181 million of the firm's \$215 million under management. It has been considering the launch of a UCITS mutual fund to widen its client base: Wangensteen concedes his firm needs to raise its global marketing game.

New York City-based MayTech has set out to capture investment opportunities which have developed out of a shift in the way goods and services are distributed, from a traditional pipeline between producers and consumers to online platforms where traditional relationships are upended.

MayTech says innovative ideas, rather than capital and labour, have become the most important drivers of production. It believes big platforms will continue to grow, potentially leaving the performance of value companies stuck in their multi-year rut. The average market value of companies in its

portfolio is \$271 billion, against \$137 billion for the MSCI index. MayTech is happy to let its winners run.

Wangensteen reckons sector classifications used by investors to diversify their portfolios are becoming blurred: “Technology is breaking down barriers and redefining the way we do business.” Google, now Alphabet, started life as a search engine and evolved into digital advertising giant. It streams content through YouTube and plans to enter transportation through driverless cars.

He says: “The distinction between growth and value investment is artificial to me. I look for sustainable growth at a reasonable price. And technology has been delivering opportunities.” AI is the next frontier: “Access to big data matters – as long as you know what to do with it.”

Nvidia is a stock MayTech likes, on the AI front. But big tech, with access to the best technology and mountains of data, are also positioned to turn AI to their advantage. Wangenstein says: “Future developments will exacerbate a winner-takes-all economy.”

Wangensteen started his career at Coopers & Lybrand before becoming an analyst at Bank of Montreal and vice-president at Industrial Bank of Japan. He joined Neuberger Berman, a value shop, as a portfolio manager in 1999 at the peak of the internet bubble: “I was definitely off brand there. But I remained very focused on businesses which could build their position.”

Once the dotcom bubble of the late 1990s was well and truly popped, Wangenstein took a view on eBay, the online auctioneer: “It provided me with the first good example of how technology could facilitate democratization.”

He applauded the 2002 purchase of Peter Thiel's online payments company PayPal: "A super valuable company."

In due course Wangenstein lost faith in eBay: "Growth was starting to slow. They were so fixated on their own playing field, they failed to build the infrastructure needed to take them to the next level." However, he bought back into PayPal, when eBay spun it off. MayTech also owns MasterCard.

MayTech is far more interested in backing online purchasing than consumer trends: "I don't want to speculate on whether people are going to buy a white shirt, or a blue shirt. I am interested in how they are going to pay."

However, it is also important to find the right fintech stock, with the right backing. MayTech sold LendingClub, a company which purported to fund a platform of people to lend and borrow money. LendingClub ended up doing some of the lending itself, and it ended up with regulatory problems.

Neuberger was owned by Lehman which collapsed in the credit crisis of 2008. Before the collapse, Wangenstein left Neuberger to join Integre Asset Management platform. He took Integre's track record with him, with the approval of GIPS performance standard setters, to start MayTech in 2017 with Ingrid Yin, former managing director of China equity research at Oppenheimer & Co.

Over the years, Wangenstein has found it makes sense to back companies which use their platforms to develop multiple opportunities for growth. He believes their high ratings can be justified by detailed analysis of the potential in new business lines, plus the ability of management to live the dream. He

also points out that the costs involved in developing new business depress earnings.

MayTech sports an earnings multiple of nearly 60 on its portfolio, against 20 from its MSCI benchmark. One of his favourites is Tencent of China:

“Eyebrows were raised when it gave access to its products for nothing. But they found ways to monetise the access.” Its WeChat social messaging facilitates access to a range of services including finance and games accessories.

Amazon, once perceived as a seller of books, has become a diverse business, offering access to a range of services in e-commerce and cloud computing.

Wangensteen says it is important to take a long, continually-updated view:

“I’ve now been through four five-year projections of its growth models.” Like Facebook and Google, Amazon is now getting into the advertising trade.

MayTech frequently thinks about the so-called S-curve of adoption: “In the early days, it’s very flat. It’s very hard to see what is going on. But when you get to a double-digit market share you see an exponential rise, until you get to 60% penetration when businesses become mature and earnings multiples compress. Companies need to keep creating new curves to move into.”

Applications finding ways to lower their prices, at no cost to the provider, are another way to travel the S-curve. Wangenstein cites Illumina, a leader in genome sequencing, which can be used in a range of personalised and preventative medicines: “The price of putting this to use keeps falling, and every time this happens, you open up new markets. You start off with billionaires, and keep travelling down.”

MayTech also keeps a close eye on the size of potential markets. Over at Tencent, WeChat's monthly users topped a billion last year: "Years ago, we predicted that China's Internet population would exceed the entire population of the US." It is interested in demographic trends, investing in Stryker Corporation and Dexcom, whose orthopaedic and monitoring systems bring comfort to patients, fast growing in number. It backs Teladoc which facilitates video-conferencing with doctors.

Well before the US trade dispute got worse, MayTech has reduced its China weighting from a peak of 30% to 10%: "It was a hard decision," confesses Wangenstein. MayTech is rediverting some of the cash to emerging market economies, including India, where it has bought into travel company MakeMyTrip. "When consumer demand develops, we have found travel is an early beneficiary."

MayTech has reservations over the US political scene, but still sees potential in its economy.

What does MayTech think about Europe? "We think about it a lot," says Wangenstein. "But a general lack of growth means that growing companies end up trading at high valuations."

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