Q: How do you identify companies for purchase?

A: We first look for industries with large addressable markets undergoing change - retail, media and software are good examples of industries that are being radically transformed by technology. We see healthcare and financial services as industries where the transformation is just beginning.

From there, we analyze industry structure and the competitive environment to gain an understanding of where in the supply chain the most value is being created and how that might change. This includes not only studying the relationship between competitors, suppliers and customers but also the threat of new substitute products and new entrants.

After identifying the companies on which to focus, we undertake a bottom-up analysis to help us understand the company's valuation relative to the opportunity and its peers.

Q: How would you describe an ideal MayTech idea?

A: Our dream scenario is to identify companies in the early stages of attacking large, emerging opportunities, investing and holding them for the long term.

We look for companies that are using technology to disrupt the traditional ways of doing things. When these disruptions occur, many times it creates a new, what we call "ecosystem," of companies whose businesses are directly related. And the most successful companies are creating these ecosystems around their product.

The relationship between the iPhone and app developers is the easiest example to point to. Apple doesn't compete with the app developers; rather, there is a symbiotic relationship: the iPhone becomes more popular, more developers create apps for the iPhone. And now with so many apps, more people need the iPhone to access to the apps.

Think of it as an "open source" competitive model. Create a platform & allow people onto the platform: sometimes you compete with them, other times not.

"…Companies with a strong competitive position and defendable economic moats…"

Q: Can you share another idea that highlights your approach?

A: It is not only important that our companies are addressing big opportunities but also that they have built in optionality.

For years, plastic (credit cards) has been taking market share from cash. This well-established trend, the digitalization of cash, gives us the added benefit of being able to play in many areas of the economy without having to figure out what consumers are going buy. We'd rather make $0.25 every time you buy something, rather than trying to figure out if it will be a pink or blue sweater.

Q: Do you have a required growth target?

A: Companies should be growing at several times GDP growth rate– above 15% is a good place to start.

Even for companies in China, whose GDP is growing 6-7%, we target double or triple that figure. Of course, the law of large numbers means smaller companies can grow more easily at these accelerated rates. But it is very difficult, obviously, when you're just starting out, to bet on if a particular company is going to do is often a hit or a miss.

That said, we are looking for long term winners. We evaluate our risk profile on an ongoing basis for each investment and will let winners run while not hesitating to sell if we see a potential torpedo in the water.

Unsurprisingly, we are not quick to give up on a company if we believe our thesis is holding. However, if one of our portfolio names is not performing as we expect we would be willing to swap it out for a more attractive opportunity.

Q: How do you differentiate your approach?

A: What's different is it is the extent to which our worldview, rather than specific qualitative or quantitative metrics, drives our investment process.

We take a big picture approach to portfolio building, and have found that companies with a strong competitive position and defendable economic moats are best positioned for future success.

Strong performance ratios or cheap valuations are nice, but they really tell us nothing about the company's prospects. The only thing that can help us to reliably make that determination is an understanding of the general direction of technology and the company's competitive position.

Q: What kind of research do you perform?

A: Once we identify a potential investment, we will perform thorough fundamental analysis to ascertain its potential profitability, balance sheet strength, predictability of cash flows, future revenue growth, and so on.

We then build a valuation model that considers our understanding of growth, and arrive at a target price. Once there is consensus on the long-term potential of an idea, we typically start with a 2-4% position and let it grow or shrink as our conviction dictates.

Q: Your top 10 holdings are primarily well-known multinationals. Are you plugged into lesser known companies?

A: Yes. We have no constraint on market cap – we look for opportunities with potential for becoming a platform company. That said, some of the companies to which you refer were much smaller when we made our initial investment.

Q: Does MayTech maintain a watch list of potential future holdings?

A: Absolutely. We maintain a running list of 50+ stocks in various stages of the investment research process. We typically have 5+ names where we are ready to invest and waiting for a catalyst to do so—valuation, better opportunity than an existing portfolio holding, cash on hand, etc. Each name on the list has undergone intensive analysis and earned our strong conviction.

Q: Can you briefly review your sell discipline?

A: Our portfolio turnover is in the teens, which means that our long-term portfolio management discipline is to let our winners run as long and as hard as they can.

When we do sell, it is based on valuation concerns *(i.e.: a holding exceeds 15% of the portfolio)*, identification of more attractive opportunities, or some reason that is more fundamental in nature *(a change in the competitive landscape, revised thesis, risk/return profile deteriorates, management upheaval)*.

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