

Strategy Overview

Q: Can you describe your investment philosophy?

A: In a nutshell:

We seek to invest in companies recognizing and taking advantage of large-scale secular changes in the global economy. We believe they are best poised for spectacular growth potential. The most successful of these companies have created unprecedented levels of shareholder wealth over a short period of time. This change is accelerating and leading to an ever-widening gap between winners and losers.

Q: How is your investment philosophy informed by your world view?

A: We believe if you're not invested the right way; if you aren't looking at the market in a way that accounts for these changes, you're going to get left behind.

More so than in the past, this new "winner take all" paradigm exists because there is a pattern-like virtuous cycle of reinforcement which has settled across the global economy.

For example, every time Google is used to conduct a search, the more powerful its search engine becomes; increased sales on Amazon result in improved product recommendations and delivery; growing use of self-driving cars provides more data to those companies who will be better able to make modifications and improvements.

Today, we see innovative ideas eclipsing capital and labor as the most important factor of production, thanks to the rapid development of easy to access powerful technology.

The advent of nearly 2 billion new emerging consumers also drives our views. These new consumers, largely in Asia, are clamoring for a "western" lifestyle, making resource allocation one of the world's biggest challenges. Since the environment simply can't support all of this, there will be tremendous opportunity for companies applying technology in solving this problem.

"...We are focused on taking advantage of accelerating changes"

Q: Other than "change" and "winner-take-all," what are some of your core investment theses that guide your discovery process?

A: Clearly, we have a strong opinion about the march of technology and where things are headed.

One of our important investment thesis is that companies exploiting technology to create new solutions for old problems can be very disruptive. Often these companies offer their core product or service for free, becoming a platform connecting customers, developers and competitors.

(Cont'd)



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When this occurs, the network effect that becomes the most formidable barrier to entry, creating a competitive position that is difficult to breach.

There are different ways to do this. But one of the best ways we have observed is to give away the core offering for free (say, a messaging platform) to people. Once their friends and business associates are on the network, it becomes very difficult to exit it.

From there, it becomes easy to drive additional offerings to them; things like games, payment platforms, and e-Commerce.

So really, it's often simply a matter of looking for companies that are applying the technologies to build the platforms that encourage "new ecosystem companies" to evolve around them.

Then, as part of our investment research process, we look at metrics like user growth or the number of developers entering into these new ecosystems to build software offerings that run on top of the platform, to help us develop a view on who is winning and who is losing in the marketplace.

Q: Many investment managers talk about technological change. How do you look at it differently?

A: Today's technological change is unprecedented and is accelerating. We think many investors still don't fully appreciate that we are entering a period of dramatic transformation.

The reason this is happening now is that after 50 years of Moore's law (the number of transistors on a microchip doubles every 18 months), the number of transistors on a chip is incomprehensibly large, leading to ever smaller, faster and cheaper computers. Therefore, things that seemed like science fiction 5 years ago are suddenly happening—self-driving cars, for example.

The reason why investors miss change is a little subtler. Change is geometric and today we are moving onto a steeper part of the curve. However, if your view is "zoomed-in" too much you will become a victim of local linearity and like many use a "straight-line" analysis and completely miss that things are taking off.

And this awareness means we have an advantage in how we assemble our valuation models for these companies.

Q: Are there any constraints on your approach, in terms of market cap, region, or industry?

A: We are focused on taking advantage of accelerating changes. In today's world, we find significant opportunity in technology, though we don't consider ourselves to be "technology investors."

If a traditional consumer products company, for example, is developing or leveraging technology in unique ways that deepen their economic moats and strengthen their competitive position, we'd be interested. Otherwise, we are market cap-indifferent, go-anywhere investors, as long as the opportunities fit our worldview.



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