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Investing in the New Era

November 2022

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23 for 2023…and Beyond

amazon
ESTĒE LAUDER COMPANIES
Linde
ThermoFisher SCIENTIFIC
LOCKHEED MARTIN
JOHN DEERE

Alphabet
LVMH
Honeywell
Nestlé
Raytheon Technologies
NVIDIA

Microsoft
ASML
UNITEDHEALTH GROUP
Roche
Walt Disney
THE HOME DEPOT

Johnson & Johnson
VISA
BERKSHIRE HATHAWAY INC.
S&P Global

Our approach

How has the investment world changed?

What kind of an investment environment can you expect going forward?

What type of companies are best-suited for the “New Era”?

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The environment we are investing in now will not be the same as the previous era

Over the past decade or so the economic environment provided investors with favourable investment conditions which included…

- Falling interest rates led to a rise in asset prices
- Risk premiums fell
- Low to moderate volatility in macroeconomic variables (inflation, GDP growth etc.)
- China acted as the growth engine for the global economy

Following the fallout from the GFC in 2007/09, global equity markets were returning a little over 10% p.a…

…following the onset of COVID-19 we experienced significant changes in the world as well as within the investment environment…

- Central banks slashed interest rates and asset prices rose even more (companies with higher growth prospects saw greater price rises and prices of more speculative assets rose exponentially)
- Supply chain weaknesses were exposed
- Political will to address global warming ratcheted higher

…the onset of COVID-19 saw global equity markets lose a third in value within a month before recovering dramatically, returning ~40% as we headed into 2022…

…towards the end of 2021 we again witnessed dramatic shifts in the macroeconomic environment…

- Inflation began to rise, reaching record levels and central banks began to raise interest rates in an attempt to tame inflation
- Geopolitical tensions escalated:
  - Russia invaded Ukraine
  - Relations between the US and China worsened with Taiwan a key source of tension
- Concerns over China as a suitable investment destination have escalated as the region's sizable property sector has fallen into turmoil, economic growth has slowed dramatically and President Xi Jinping has strengthened his grip over the Chinese Communist Party as he secured a third presidential term

…however, higher interest rates, rising geopolitical tensions and concerns over China have already had a dramatic effect on asset prices as global equity markets have fallen over 15% year-to-date.

What can we expect in the “New Era”?

Investment conditions are going to be different and more challenging…

Variable	Previous Era	New Era
Interest Rates	Low and Falling	Structurally Higher / More volatile
Inflation	Low and Stable	Structurally Higher / More volatile
Growth	Low in general / (pockets of high growth)	Low in general / (pockets of high growth)
Corporate Profitability	Increased	Likely to decrease
Expected Returns	Above average	Below Average

How to navigate the New Era

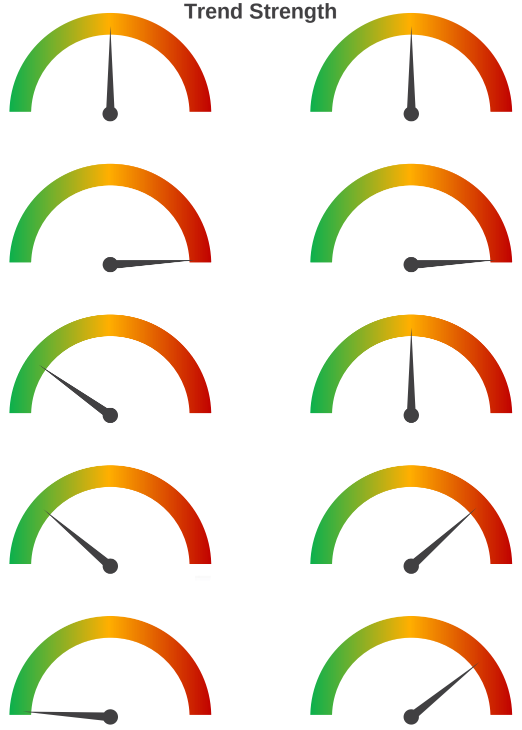
Companies that exhibit the following characteristics:

Quality / Durability
+
Innovation / Enabling

…are best suited for the challenging investment conditions and Mega Trends that lie ahead

New/emerging Mega Trends will compete against previous Mega Trends – the 5 D’s

Previous Era	New Era	Mega trend
		Demographics
		Digital | Data
		Deglobalisation
		Decarbonisation
		Defence



Mega Trends

Overview

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1 Demographics

Background

- Compared to previous decades, global population growth, specifically in developed markets and even China, has slowed down dramatically. A slowdown in population growth and an **aging population** implies increased dependency of the elderly on future generations.
- **Rising living standards** across emerging markets, especially Asia, will require a significant increase in food production to meet **growing demand** and **consumers will increase their spend** on aspirational goods and experiences.
- Since the 1970's, **real wage growth** for the middle class, specially those in developed markets, has been in decline as labour's share of what used to be their income has shifted into the pockets of capital owners. Looking ahead, it is quite possible that we will see a shift in this area as **labour receives a larger share of the "pie"** possibly at the expense of corporate profitability through **increased taxation**.

Implications

- **Health**: An aging population dependant on future generations is likely to lead to increased spend on healthcare. Companies that are on the **forefront of developing new treatments, therapies and medical devices** will be key beneficiaries from growing spend in healthcare. COVID-19 ushered in a new era of medical innovation which has and is likely to benefit those companies that provide **the "picks and shovels"** associated with the development of new treatments. As government expenditure on healthcare rises, so will the **need to better control and limit such spend** through the managed care of patients and companies that specialise in this area will be sought after by investors.
- **Food**: Increased demand for food will require an **increase in food production** which implies an increased **demand for farming equipment and chemicals** as well as an improvement in farming technologies which can lead to higher production yields. Companies with well **respected brands** are likely to be the preferred choice of consumers and the premium associated with such brands will enable such companies to pass on higher costs to the customer.
- **Aspiration**: As developing economies experience a **growth in their middle class** as well as growing wealth among the **upper class**, one can expect an **increased demand for experiences and luxury goods**. Companies that offer **premium brands** as well as **luxury products** will be the main beneficiaries from this spend.

2 Digital | Data

Background	Implications

Background

- We are **becoming increasingly dependent on technology** as it continues to integrate itself into our lives be it from the perspective of consumers, enterprises or even government..
- Technological advancements have also led to significant **disruption across multiple industries** and have changed the way things are manufactured, how we shop for them and how we pay for them
- The world moved from the PC or laptop as the centre of the "universe" to the **smartphone which serves as our primary device** in terms of communication, news feed and even entertainment. We are now entering the next evolution of the internet as the idea of the of platforms such as the **Metaverse** or **Web3** grows in prominence and the possibility of new technologies and devices move from prototype to mainstream.
- As the speed of communication continues to increase and we converge towards the ubiquity of the interconnected devices, the adoption of **cloud computing, artificial intelligence, automation, media streaming** as well as **digital payments** will reshape they way in which technology impacts the life of consumers as well as corporations.

Implications

- In a world that is becoming increasingly digital or digitalised, we are witnessing an acceleration of technological advancements such as **machine learning, the Internet of Things (IoT) and automation**.
- **Companies that enable these technologies are likely to benefit from increased digitalisation**. From a hardware perspective that includes those that design and manufacture **semiconductors** (microchips) as well as those that provide the tools to do.
- To improve the functionality of hardware, software has become a critical enablement platform. Companies with **well established or growing software ecosystems**, be it iOS, Android, Microsoft or CUDA (Nvidia) are likely to continue to benefit from the growth in software.
- What we have also witnessed is a **shift in the business model for distributing software**. Whereas **software** was previously purchased in a box off the shelf, today it is effectively **sold as a service** from the cloud with an associated subscription (software as a service – SaaS).
- Moving both **software and hardware to the cloud** has been one of the most dramatic shifts. We are still at the beginning stages this trend still carries strong momentum which will benefit those provide cloud-based services.

3 Deglobalisation

Background	Implications
• The **mid-eighties** heralded an unprecedented period of **globalisation** as trade barriers were reduced and China essentially became the "factory" to the world. We have however begun to see a reversal in this trend as Western nations look to bring manufacturing and production closer to home. • In somewhat of a surprising twist, **globalisation may have actually peaked around the time of the GFC and it plateaued over the past decade** before a number key factors accelerated a change towards deglobalisation, some might say "slowbalisation", or even regionalisation. • Perhaps the biggest factor was **COVID-19**. The isolation of countries from one another highlighted the fragility of global supply chains and the need for on-shoring or at least spreading manufacturing hubs across various geographies. • **Geopolitical tensions between the US and China** will also provide further impetus for supply chain regionalisation.	• We are likely to witness **increased spending by corporations**, supported through government incentives, to "**bring industry back home**". This would take place through capex spend to build new plants and factories. • The outsourcing of manufacturing to cheaper forces has been beneficial for corporate profits margins but an **increased use of regional labour may negatively impact incremental margin gains**. This could potentially act as an inflationary force leading to structurally higher inflation. • The increased cost of capex and labour would incentivise corporations to **accelerate investments into automation** as it would act as an inherently deflationary force, countering the inflationary impact of higher labour costs. • **Investors are likely to place increased value on companies that are able to provide innovative solutions that enable regionalisation whilst remaining cost-effective** as well as those companies that are better positioned to still sustain margins in an environment of rising capex and labour costs.

Nestlé
THE HOME DEPOT
JOHN DEERE
NVIDIA
ASML
S&P Global

4 Decarbonisation

Background	Implications
• The growing seriousness of climate change is leading the charge for rapid decarbonisation and **a push towards “net-zero”.** • This **requires a shift in energy production away from hydrocarbons**, such as oil and gas, towards “greener” alternatives such as solar and wind power. It will also require our buildings, factories and modes of transportation to become more energy efficient. • **Governments around the globe**, be it the US (at least the Democrat portion), Europe and even China, are introducing **policies that incentivise clean energy technologies** and in some instances mandate a transition towards cleaner energy. • What needs to be understood is that this radical, yet necessary change, **will take a significant amount of time**, not years but decades, as it will involve the construction of completely new power grids, buildings will need to be redesigned and rewired, new supply chains will develop and we will need a dramatic switch from internal combustion energy engines (ICE) to electric vehicles (EVs).	• To meet the goal of net-zero **will require trillions of dollars in capex** annually and an earthing of minerals needed to build the green infrastructure the likes of which has never been. • The spot prices for the likes of copper, nickel, cobalt and lithium have already experienced dramatic price rises as demand grows and **volatility in these “green” metals is expected to be elevated** during the transition. Higher input costs arising from increased demand are likely to have inflationary consequences. • An additional **inflationary consequence** of the green transition is that while the cost of producing clean energy continues to fall, becoming more competitive with less environmentally-friendly fossil fuels, in many instances it is still more expensive to opt for clean energy over fossil fuels. The “greenium” could be reduced through innovation and/or scale and fossil fuels could be made more expensive through carbon taxes or regulations but until then higher costs will likely lead to inflation. • **Enablers of the transition will be the likely beneficiaries** of increased spend but the long expected timeline of the transition makes its somewhat more challenging to identify early winners at this stage.

Honeywell
Berkshire Hathaway Inc.
Linde
John Deere
S&P Global
amazon

5 Defence

Background	Implications
• The **invasion of Ukraine by Russia** has sparked a **dramatic shift in approach to national defence** by NATO nations which is likely to result in governments bulking up their military, specifically in terms of modernisation. NATO nations excluding the US have previously committed to spending ~2% of their GDP on defence but have previously not maintained this level of spend. • Perhaps of greater significance has been the **escalation of geopolitical tensions between the US and China**, specifically over the possibility of a Chinese invasion over nearby neighbour Taiwan. • The invasion by Russia and the growing threat of China has reignited the "**Great Power Competition**" as these nations pose rising challenges to the Post-World War II US-led international order.	• Increased fear of potentially military action by "unfriendly" foes is likely to lead to an increase in defence spend by NATO nations. Defence spend by many countries (excluding the US) that form part of NATO has been below their commitment, 2% of GDP, but it is now more likely that their spend will be increased closer to this level. • The **US is by far the biggest spender in defence** and its government will likely focus on modernisation to combat the growing threat from Russia and China. This will include the development of new-age weapon and defence systems, space (satellites and communications) as well as cyber security. • The most likely beneficiaries from increased defence spend are the **defence contractors**, specifically those focused on moderinisation. Others that will benefit are those that provide the components, parts or services to the military.

LOCKHEED MARTIN

Raytheon Technologies

Honeywell

ASML

NVIDIA

Appendix

Company overviews

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Mega Trend Exposure Overview

	Alphabet	Amazon	Apple	ASML	Berkshire	Deere	Estée Lauder	Home Depot	Honeywell	Johnson & Johnson	Linde	Lockheed Martin	LVMH	Microsoft	Nestlé	Nvidia	Raytheon	Roche	S&P Global	Thermo Fisher	UnitedHealth	Visa	Walt Disney
Demographics																							
Digital | Data																							
Decarbonisation																							
Deglobalisation																							
Defence																							

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Company overview

COMPANY	WHO ARE THEY AND WHAT DO THEY DO?	WHY DO WE LIKE THE COMPANY?
Alphabet	• Parent company of Google which is home to some of the world's most popular digital properties including the Google search engine, Android OS and YouTube. • Generates the majority of its revenue from digital advertising with the remainder stemming from fees app purchases in the Google Play store, subscription fees from YouTube and sale of cloud services on the Google cloud platform.	• Incredibly powerful moat in terms of search (~90% market share) allows the company to generate sustainably high returns on capital which translates into strong free cash flow generation. • Likely to benefit from the continued shift of advertising budgets away from traditional forms of media (broadcast television, print) towards digital formats with YouTube a core area of potential growth.
amazon	• The Amazon e-commerce platform is the largest in the world by revenue, selling millions of products across the globe, be it Amazon's own product lines or acting as a store front for third-party merchants. • In addition to being the largest e-commerce company in the world, Amazon, through its subsidiary Amazon Web Services, is also the largest cloud computing company in the world. • In addition to generating sales from products sold on its e-commerce platform and cloud computing services, Amazon also receives income for subscription services such as its Prime Membership, music streaming, audio books. Amazon also generates a size portion of income from advertising.	• Possesses sizable moats across several businesses underpinned by large economies of scale that would be significantly difficult to replicate. Amazon protects and grows these moats by reinvesting a significant portion of the cash that it generates back into the business. • Amazon has been a prime beneficiary from structural growth drivers such as e-commerce and cloud computing. Growth in these two areas is likely to persist, albeit it at a slower pace than previous years. • Amazon is doing its part in terms of decarbonisation through its investment in electric vehicle company Rivian and has ordered over 100,000 electric vans from them to form part of its delivery fleet.
	• The majority of the revenue generated by Cupertino-based tech giant is generated from the sale of the world's most popular electronic device, the iPhone. • Other products sold include MacBooks, iMacs, iPads, Wearables (Apple Watch and AirPods) and home devices (Apple TV and voice assistant). • Beyond products, service revenue is becoming a larger portion of Apple's revenue base and includes fees from its App Store related to gaming, licensing fees, Apple Music, iCloud, Apple Care and Apple Pay (Apple receives ~30% of sales that take place through the App Store).	• The iPhone remains the key area of revenue generation for Apple although the tremendous growth that the company saw form the device a decade or so ago is unlikely to persist. That said, the ecosystem that Apple has built around the iPhone and the related devices has created a sizable install base (~900 million) that Apple will be able to monetise through the sale of additional services which is providing a new avenue of growth, albeit at a lower rate than previous years. • The desirability that surrounds the iPhone and other Apple Devices, allows Apple to charge a substantial premium for its products, especially when compared to other similar devices. This provides Apple with substantial pricing power which may prove increasingly important in a world of higher input costs resulting from inflation and supply chain distribution.
ASML	• Global market leader in the design and manufacture of photolithography systems that are used to produce semiconductors. • These systems, which are the size of a school bus, are arguably the most advanced machines in the world that are capable of producing semiconductors 3 nanometers (3 billionths of a meter) in size and operate at a level of precision equivalent to a laser pointer being able to hit your thumb from the moon.	• The semiconductor industry is forecast to almost double in size and reach $1 trillion by 2030 as semiconductor usage is expected to significantly increase in a world that is becoming increasingly digital and interconnected. This provides a structural growth tailwind for ASML. • ASML possesses a sizable economic moat as it is the only company in the world with the technological capabilities to produce machinery capable of manufacturing leading edge (smallest) semiconductor chips at scale.
Berkshire Hathaway Inc.	• Warren Buffett's investment holding vehicle that owns companies in a variety of industries including insurance, railroad, manufacturing, retailing, utilities and energy. • Along with his long-time investment partner, Charlie Munger, Buffett invests in companies that he believes possess a sizable economic moat and only does so if he believes he can acquire these businesses at a reasonable price.	• Berkshire has a track record second to none when it comes to capital allocation. This is an important trait when we consider investing in a business as management will essentially be deploying the profits generated by the company on our behalf. • Within its utilities segment, Berkshire has made and continues to make sizable investments into alternative energy production including wind, solar and hydro.

Company overview

COMPANY	WHO ARE THEY AND WHAT DO THEY DO?	WHY DO WE LIKE THE COMPANY?
John Deere	• The Deere brand is highly regarded in the farming community and is renowned for producing mission-critical, reliable agricultural equipment. • Amid the continued shift towards precision farming, Deere has established itself as the market leader in designing future technologies that it believes will eventually lead to a fully autonomous farm. Products include self-driving tractors, see-and-spray devices that can identify crops from weeds and only spray herbicide on the weeds, machine learning that enables equipment to follow the most efficient route and deploy crops and related fertilizer at the most efficient level enabling farmers to manage their farms from the previous field level right down to an individual crop.	• The strong brand that Deere has created for itself over its long history enables the company to sell its products and services at a premium resulting in high returns on capital, well above its competitors. • Deere operates at the coal-face when it comes to addressing food insecurity as well as decarbonisation. Deere's ever-increasing advancements in agricultural technology led to increased efficiency and higher crop yields. Deere is also contributing from an environmental perspective by reducing the amounts of chemicals used in the farming process as well as through the introduction of battery electric tractors.
Estée Lauder Companies	• Estée Lauder is multinational cosmetics company that manufactures and markets skin care, makeup, fragrance and hair care products. • The company possesses a strong competitive position in premium beauty and it has an enviable portfolio of ~30 luxury cosmetic brands which include: Estée Lauder, Bobbi Brown, Clinique, Darphin, Jo Malone, Le Mer, Kilian, MAC and Smashbox to name but a few.	• Estée Lauder provides investors with exposure to one of the fastest-growing consumer product markets. Globally, makeup sales are growing in the high-single digits – a trend which should continue to be supported by an aging population's increased demand for beauty products, and perhaps, more importantly, the need of the "selfie generation" to look its best at all times. • Estée Lauder is a high quality company that has consistently generated high returns on capital.
The Home Depot	• Home Depot is the world's largest home improvement retailer but is predominantly a US-based company, generating over 90% of its sales from the country. • The Home Depot brand is well established in the US which can be ascribed to its sizable scale and dynamic distribution network, from which a portion of the savings can be passed on to the customer through lower pricing.	• The company's dominant competitive position also provides significant bargaining power with suppliers, thereby affording it the ability to have better pricing than its competitors and raising the barriers to entry for new entrants. • The combination of aging housing as well as rising house prices, has enabled Home Depot to consistently deliver on operational targets and achieve high quality, sustainable earnings growth.
Honeywell	• Honeywell is a highly innovative industrial group that develops products and services (including software) across Aerospace (engines, mechanical components and electronics for both commercial and defence purposes), Building management systems (energy management, fire and safety, access and security control), chemicals and materials (instrumentation, catalysts, absorbents, industrial materials used in armour, semiconductor manufacturing), safety products (PPE, apparel and footwear) and warehouse automation solutions.	• The need for decarbonisation may be best addressed by innovative companies that are able to develop solutions to address the challenge and Honeywell is well-positioned in this regard as it has or is in the process of developing technologies and solutions that can meet this goal. Notable solutions include building management systems to reduce their emissions and energy usage, sustainable fuels, carbon capture storage systems and molecules that the reduce CFCs. • Honeywell is also favourably positioned to benefit from an increase in defence spend on aircrafts, space, digital defence systems and weaponry (hypersonic missiles and nuclear).
Johnson & Johnson	• Johnson & Johnson is the world's largest healthcare group, touching all aspects such as consumer products, medical devices and pharmaceuticals. The company has however recently announced its intention to spinoff its consumer products division. • The firm's brands include numerous well known household names of first aid supplies and medication such as, Johnson's baby products, Tylenol medications, Band-Aid line of bandages, Neutrogena, Clean & Clear face wash and Acuvue.	• The company has sizable growth prospects and a strong competitive positioning, holding a leadership role in several segments, whilst also not being overly dependent on one particular operating segment. • Expected new product launches, coupled with diverse operating segments, make the company relatively more protected and insulated from patent losses to other big pharma firms. • Johnson & Johnson has strong cash flow generation as well as a robust product pipeline which has enabled it to increase its dividend for 55 consecutive years.

Company overview

COMPANY	WHO ARE THEY AND WHAT DO THEY DO?	WHY DO WE LIKE THE COMPANY?
Linde	• Following a merger between Linde (German chemicals group) and Praxair (US chemicals company), Linde Plc became the world's largest industrial gas supplier. • Its primary products include both industrial gases (oxygen, nitrogen, and argon) and process gases (carbon dioxide, helium and hydrogen). These gases are used throughout multiple industries which include manufacturing processes, food packaging, medical purposes as well as in fuel cells.	• Linde has historically generated lucrative returns on capital much in part due to its economic moat, underpinned by high switching costs and long-term contracts. Industrial gases are normally a small fraction of a customer's total cost base but are nonetheless a vital input to ensure production remains uninterrupted. As a result, customers are willing to pay a premium to ensure this is achieved. • Linde is currently expanding its green hydrogen offering as it pertains to fuel cells. Linde offers "green" solutions in the form of both carbon capture storage as well as hydrogen mobility where it operates ~200 hydrogen production plants and is building ~35% of worldwide hydrogen refuelling stations.
LOCKHEED MARTIN	• Lockheed Martin is the largest defence contractor in the world. The company is best known for the production of military aircraft, specifically the F-35, the world's most advanced fighter jet. • In addition to fighter jets and helicopters, the company also produces missile and rocket systems, missile defence systems, satellites and spacecraft.	• Lockheed Martin is one of the best-positioned defence contractors with regards to an increase in future defence spend. Much defence spend is expected to relate to modernisation and Lockheed is a leader in many of these areas including space and hypersonic missiles. • Beyond benefitting from an increase defence spend, Lockheed Martin is a quality company that has a long track record of generating high returns on capital, above that of its competitors.
LVMH	• French multinational LVMH is the world's most valuable luxury goods conglomerate. • The company manages some of the best-known luxury fashion, jewellery and cosmetics, wines and spirits brands, some of which have endured for decades, or even centuries in several cases. These include its namesake, Louis Vuitton, as well as other well-known brands including Tiffany & Co, Tag Heuer, Christian Dior, Givenchy and Moët et Chandon and Hennessy.	• LVMH's sales are geographically balanced which provides stable growth as it blends a mature market culture spending on premium-branded products, with consumers entering the luxury market for the first time. Over the last decade, luxury spending growth at home and abroad by Chinese nationals has led to increased brand consciousness, a trend which LVMH should continue to benefit from. • Management has been extremely successful at increasing the diversification of cash flows, engineering a more defensive earnings stream by channelling capital expenditure into other high margin or volume growth segments, most notably, hard luxury such as watches and jewellery.
Microsoft	• Microsoft develops, licenses and supports software products and applications for various devices. Core products and applications include operating systems (Windows), productivity applications (Office: Excel, Word, PowerPoint, Outlook), server applications, business solution applications, desktop and server management tools, software development tools and video games. • After Amazon, Microsoft's Azure is the second largest cloud computing platform enabling customers to move IT functions from on on-premises IT to the cloud . • Microsoft also designs, manufactures and sells devices such as tablets, gaming consoles and other intelligent devices.	• The secular shift from on-premises IT to cloud computing will continue to be a key driver with Microsoft Azure being a beneficiary of this trend. Azure offers customers a relatively frictionless way of relocating on premises IT into the cloud as existing Microsoft customers will remain in the Microsoft environment. • The switch of Windows and Office from traditional on-premises products to a subscription-based software as a service (SaaS) has allowed Microsoft to transform its revenue base to a more predictable annuity structure.
Nestlé	• Nestlé is the largest food and beverage manufacturer in the world by revenue and owns well-known brands such as Nestlé, Nescafe, Nespresso, Maggi, Milo to name but a few. • Traditional product lines include powdered and liquid beverages, prepared dishes and cooking aids, milk products and ice cream, confectionary and water. • In additional to the traditional product lines, Nestlé is increasing its exposure to fast growing segments such as pet care as well as nutrition and health science	• Nestlé's portfolio of iconic brands has a truly global reach, and the company's size provides procurement advantages, increased shelf space and a difficult-to-replicate distribution network which raises barriers to entry. Through superior product innovation, Nestle continues to successfully react to changing consumer demands and adapt to current market trends. • Nestlé's strong free cash flow generation enables it to return significant capital to shareholders, whilst continually reinvesting in its brands. Management have repeatedly stated their goal is to create long term sustainable shareholder value, something they have been doing for 152 years.

Company overview

COMPANY	WHO ARE THEY AND WHAT DO THEY DO?	WHY DO WE LIKE THE COMPANY?
NVIDIA	• Nvidia specialises in the design of graphic processing units ("GPUs"). GPUs were originally designed for the rendering of 3D graphics which made them particularly useful for gaming as well video and image editing by professionals. However, the ability of the GPU to perform multiple computations simultaneously meant that they are well-suited to the realm of artificial intelligence and its subsets including machine learning and deep learning. In addition, cryptocurrency "miners" also make use of GPUs when mining for Bitcoin and Ethereum. • Historically, gaming has been the predominant end-use for Nvidia's GPUs but as cloud computing and AI have grown in prominence so has the demand for Nvidia's GPUs particularly in the data centre space where Big Tech companies such as Alphabet, Amazon and Microsoft make extensive use of Nvidia's products. Nvidia also operates in the automotive space providing infotainment to a host of customers as well as autonomous driving through its Drive PX platform which is a deep learning tool used by over 300 partners.	• Growth in gaming is expected to continue to drive the demand for Nvidia's gaming GPUs. Key factors that are likely to influence growth in this area include the expanding population of gamers, the rise of E-sports (competitive gaming), higher production value of games (requiring more processing power in the form of GPUs) and cloud gaming. Apart from the hardware aspect, Nvidia also operates a cloud-gaming platform called Ge-Force Now. (not available in South Africa). • Accelerated computing is the use of specialised hardware, such as GPUs to dramatically speed up work often through the use of parallel computing. Currently, Nvidia monopolises the accelerator market (not even Intel is close). Nvidia offers high-end GPUs for training (learning a new capability from existing data) and agile GPUs for inference (applying a newly learned capability to new data) and the company is the dominant player in deep learning with key users of its hardware and platforms finding it incredibly useful in terms of accelerating cloud workloads. • Nvidia is likely to be one of the key beneficiaries from the growing metaverse theme as the virtual worlds will be run on GPUs.
Raytheon Technologies	• Raytheon is an industrial company whose operations are split into the supply of key components for commercial aerospace and one of the largest defence contractors in the world where is it well known for its work on the well-established Patriot Missile system. • Key products and capabilities include aircraft engines, aerostructures, avionics, aircraft interiors, cyber and data analytics, missile defence, mission systems, weapons systems and sensors.	• Raytheon is well-positioned as a defence contractors to benefit from increase in future defence spend. Much defence spend is expected to relate to modernisation and Raytheon's expertise in missiles and missile defence systems should see it benefit in this regard. • Raytheon possesses strong competitive advantages across many of its business lines that should allow it to continue to produce favourable returns on capital.
Roche	• Roche is a pioneering Swiss biopharmaceutical and diagnostic company, with a long heritage dating back to 1896. • The company's core strength lies in its global leadership in the fields of oncology and diagnostics. • Roche's biologics constitute 75% of their pharmaceutical sales, also making the firm the biggest biotechnology company in the world, which provides a buffer against traditional generic competition. • Two thirds of their research and development spend is focused on combining its therapies with companion diagnostics, providing another buffer, this time against substitution of competing therapies.	• Roche's drug portfolio and industry-leading positions in oncology and diagnostics create a sustainable competitive advantage and strong future growth prospects, particularly since cancer remains the second-leading cause of morbidity and mortality worldwide, with almost 15 million new cases per annum, and cases are expected to rise by about 70% over the next two decades. • The company has a long-history of generating high returns on capital, well in excess of the cost thereof which underlines the high-quality nature of the business.
S&P Global	• The world of credit ratings is dominated by a handful of trusted firms and S&P Global is the largest of them all. • S&P Global also owns and provides information relating to the world's most followed market indexes. • The company also provides data and analytics on capital and commodity markets worldwide to capital market participants. • Revenue is generated from fees associated with providing credit ratings as well as from subscriptions relating to market index products and the use and provision of data and analytics.	• Within the aforementioned Mega Trends, companies will need to raise capital, be it for projects associated with decarbonisation or simply spend on manufacturing capacity to diversify their footprint or bring manufacturing closer to home. The capital raise will likely require a credit rating which will be to the benefit of rating agencies such as S&P Global. • As investors increase their focus on companies that are addressing decarbonisation, they will require both analytics as well as indices to help them analyse and assess the performance of companies in this regard. S&P Global will benefit from subscription fees associated with the provision of such services.

Company overview

COMPANY	WHO ARE THEY AND WHAT DO THEY DO?	WHY DO WE LIKE THE COMPANY?
ThermoFisher SCIENTIFIC	• Thermo Fisher is a life sciences company that effectively provides the “picks and shovels” used in biological and medical research, discovery and production of new drugs and vaccines. • The company develops, manufactures and sells scientific instruments and laboratory equipment (refrigerators and freezers, cryopreservation storage tanks, biological safety cabinet products, water analysis instruments, laboratory plastics products. laboratory chemicals), diagnostics consumables (test kits, culture media), and life science reagents. • In addition, they also provide software and services that are used in medical labs.	• Thermo Fisher Scientific has created for itself a wide economic moat with a positive trajectory. The growing strength of the moat is underpinned by the firm’s significant scale advantage over its peers in the life sciences space. • The company possesses a large annuity revenue base – consumables, which provide recurring revenue, now account for 75% of total sales. • Thermo Fisher Scientific has a history of value creation for shareholders underpinned by sustained exceptional returns on capital.
UNITEDHEALTH GROUP	• UnitedHealth is classified as a Managed Care Organisation (MCO). Managed healthcare is a term used to describe a group of activities intended to reduce the cost of providing health care associated with American health insurance whilst improving the quality of that care. In practice this objective remains a challenge but MCO’s have still managed to maximise shareholder value is pursuit thereof. • UnitedHealth fits into the category of MCO as it is made up of one of the largest health insurance companies in the US, a pharmacy benefit manager (act as an intermediary between drug manufacturers, health insurers and payers to negotiate drug prices), a provider (operates a health care system that employees over 50,000 physicians and owns a number of urgent care and ambulatory centres) and a health analytics franchise (improves quality and efficiency of health care whilst reducing administrative costs).	• Healthcare is one of the biggest costs in the United States as Healthcare typically averages around 15% of US GDP. It is likely this number will increase over time given the expected demographic changes which will lead to an increase in healthcare spending. As health care costs are expected to rise, avenues to reduce future expenditures would be needed. As a leading MCO, UnitedHealth’s model of treating the patient from beginning-to-end through the provision of both health insurance as well as provider of medical services through its healthcare network, will go a long way to achieving this goal. • UnitedHealth has consistently generated returns on capital well in excess of the cost thereof, a feat it has managed to achieve through its competitive advantages across its various business segments.
VISA	• Visa is the world’s largest payment technology company, managing an “open loop” global payment network, linking the shopper with the merchant. It does not issue cards or charge interest, but acts as a toll booth, generating revenue by charging a fee based on the dollar volume and number of transactions processed through its network which connects millions of consumers and businesses every day. • Visa dominates the global market for electronic payments, accounting for about half of all credit card transactions and roughly three quarters of debit card transactions.	• Over the next few years, we are likely to see rapid changes in the way we transact, as 85% of all retail transactions still deal with cash. We therefore believe that Visa still has ample runway to grow as it continues to digitalise the 17 trillion dollars of cash and cheque-based transactions. • Furthermore, we are of the opinion that the rise of e-commerce will help accelerate the digitalisation of cash transactions. • The dominant market positions of the payment networks has resulted in economies of scale, and with billions of transactions representing trillions of dollars processed every year, Visa and MasterCard possess unmatched scale — a significant barrier to entry for potential competitors.
Walt Disney	• Walt Disney is best known for its lovable Disney and Pixar characters but it also owns the rights to well known and highly popular franchises such Marvel comics and Star Wars. • Disney’s theme parks, which are scattered across the globe, are some of the world’s most popular tourist destinations attracting millions of visitors each year and generate large amounts of revenue • In addition to theme parks, Disney owns a number of media networks across broadcast and cable television which include the ABC Television Group and ESPN. • More recently, Disney has launched its streaming service, Disney+, which showcases movies and television shows across its highly popular franchises. The service already has over 150 million paying subscribers and when combined with Disney’s other streaming platforms, namely Hulu and ESPN+, Disney has over 220 million subscribers.	• The key to Disney’s success over the years is that it is able to monetise its sizable portfolio of characters and brands at a higher level than competitors. Disney can take a character, say Darth Vader, and use his appeal to attract viewers into going to watch the latest Star Wars movie. This character can then be imported into a theme park ride where fans can once again view their favourite villain, possibly even meet him in the street of Disney World and challenge him to a lightsabre battle. Fans can then purchase Darth Vader merchandise, be it clothing or toys from the Disney store before heading home. Once home, fans will rewatch Darth Vader on their favourite streaming service, Disney+, as they plan their next Disney trip. Disney’s competitors are not able to replicate this kind of model.

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