

# VIEW



FEBRUARY 2025

Cross my palm  
with silver...



# OUR JOB IS TO ENSURE THAT OUR CLIENTS' SAVINGS BEAT INFLATION OVER THE LONG TERM: THAT MEANS STAYING ON THE RIGHT SIDE OF HISTORY.

Investment managers' new year predictions make great theatre, but with accuracy of around 47%<sup>1</sup> they are often worse than random guesses. The annual reading of the runes does, however, raise a great question.

If investment managers can be so spectacularly wide of the mark when peering only months ahead, how can long-term investors like us hope to be clear-eyed when it comes to the next 5–10 years?

## **"Play what ya know" (Charlie Parker)**

During WWII, Britain's code breakers at Bletchley Park struggled to decipher Germany's Enigma code, which each day presented 150 million million possible combinations of 10 pairs of 26 letters.<sup>2</sup>

Bletchley's breakthrough insight was that many messages included weather details, salutations and stock phrases such as 'Keinebesondere Ereignisse' (nothing to report). This alone was enough to shrink the odds from millions of millions to more manageable thousands.

Like the Bletchley team, we focus on what we can know with reasonable certainty. We aim to find companies that are experiencing increasing demand for their products or services thanks to positive structural changes in the way the world lives and works. While economic cycles are almost impossible to predict, structural demand can be both long-term in nature and relatively insulated from the economic cycle.

But the devil is in the detail: relatively few companies that benefit from structural growth trends have the resilience and potential that we seek. What we look for is evidence that a company can continue to grow its revenues and generate attractive levels of cash, whatever the weather. That requires a deep – and often prolonged – dive into its track record, its business model, competitive advantages, defensive moats and the quality of its management.

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Never let the future disturb you. You will meet it... with the same weapons of reason which today arm you against the present."

Marcus Aurelius  
Roman Emperor, 161–180 AD



## Sail with the wind

We can gauge whether a business is well-supported by long-term structural changes such as demographics, climate change, digitalisation and automation. Demographics alone provide powerful insights because around 50% of global GDP growth is attributable to population growth.

Today's data tells us that by 2050 there will be a much smaller global workforce and many more people over the age of 65. Technology and automation will need to do the heavy lifting if economic output is to increase, or even stay at current levels. This plays to the strengths of manufacturers of crucial components and instrumentation such as **AMETEK** and **Amphenol**; global providers of financial plumbing such as **Fiserv**; and even **Avery Dennison's** humble but efficiency-generating smart labels (RFID tags).

An older population will also mean strong demand for healthcare. The sector will need to up its game, being 10 years behind financial services firms in how it uses data and analytics, according to **Experian**, which provides data analytics services to hospitals. On the plus side, we live an era of explosive innovation in life sciences for which **Thermo Fisher Scientific's** products, from critical lab supplies to high-tech analytical instruments, are the picks and shovels.



## Always look on the bright side of life

We have an optimistic view of the future, and with good reason. If we can glean anything from history, it is the sheer brilliance of human ingenuity and its ability to improve lives and conjure prosperity out of ideas.<sup>3</sup> That said, even industry experts have struggled to discern what lay ahead in their own specialist areas. Stepping outside of one's own preconceptions and the prevailing wisdom is a skill that takes cultivation.

Thomas Edison opined that "Fooling around with alternating current is just a waste of time". This was in 1889, during the War of the Currents in which Edison backed direct current (DC) and Nikola Tesla advocated alternating current (AC). During this duel we would have opted to invest in components needed for both AC and DC equipment – just as we currently invest in **Synopsys**, and **Cadence Design Systems**. Their essential design and testing software products will be in demand across the tech ecosystem, regardless of which AI, semiconductor or software companies prevail.

"The abdomen, the chest and the brain will forever be shut from the intrusion of the wise and humane surgeon." So spake Sir John Eric Ericksen, Surgeon-Extraordinary to Queen Victoria, in 1873. Given the Victorian passion for progress, we think he would have been thrilled by **Intuitive Surgical's** Da Vinci 5 robots. These are helping 'wise and humane' surgeons carry out more, and more complex, procedures (including the first fully robotic double lung transplant<sup>4</sup>) and reduce patient recovery times.

Sir John might be surprised that, despite 17% annual growth in the use of Intuitive's robots, these marvellous machines are still only used in 4% of surgeries worldwide. There is plenty of room for growth.



There is a world market  
for about five computers."

Thomas J. Watson  
Chairman of IBM, 1943



## Edison's lightbulb moment

We are not in the business of making exact predictions, but there is much that we can do to ensure that our clients' investments stay on the right side of history.

To our mind, a strategy for navigating rapid and disruptive technological change should be forward-looking, based on diverse perspectives and continuous learning, and flexible enough for proactive risk management. By contrast, any approach that relies on backing yesterday's winners or expecting the status quo to continue in an 'eternal present' might not cut the mustard.

Perhaps the closest analogue to the disruptive change we are living through is the period following the introduction of Edison's incandescent lightbulb in 1879. In hindsight, we can see that 1879 was the spawning point for deep, global social and economic change. This included extended factory production times, accelerating urbanisation, safer streets and working

conditions, better health (farewell gas lighting) and a step-change in economic growth driven by the proliferation of electrical devices: from trains, trams and film projectors to domestic irons, fans and refrigerators. These are now so much part of our daily lives that it can be difficult to appreciate how radical they were. The fish does not see the water!<sup>5</sup>

Like us, the Victorians and Edwardians had a strong sense that change was afoot, but they struggled to grasp its significance. The Dow Jones Industrial Average of 1896 was dominated by agricultural businesses such as American Sugar, American Tobacco and Distilling & Cattle Feeding. By 1918, the emphasis had switched to names such as American Car and Foundry, American Can and General Electric – founded in 1892 to consolidate Edison's multiple enterprises. Sugar, tobacco and cattle feed were still in demand, but society and industry had changed fundamentally and irrevocably.

For investors today, the greatest risk might be relying on what worked before. As Henry Ford allegedly noted, left to their own devices his customers would have asked for a faster horse.



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1 See, for example, analysis by CXO Advisory Group of 6,584 forecasts from 68 experts over several years. <https://www.wealthmanagement.com/equities/inaccuracy-market-forecasts>

2 Claire Ellis, *Exploring the Enigma*, 2005. <https://plus.maths.org/content/exploring-enigma>.

3 Here are three excellent antidotes to pessimism: Matt Ridley, *The Rational Optimist: how prosperity evolves*, Fourth Estate, 2011; Hans Rosling, *Factfulness: ten reasons we're wrong about the world – and why things are better than you think*, Sceptre, 2018; Hannah Ritchie, *Not the End of the World: surprising facts, dangerous myths and hopeful solutions for our future on planet Earth*, Vintage, 2024.

4 NYU Langone Health, *NYU Langone performs world's first fully robotic double lung transplant*, November 2024. <https://nyulangone.org/news/nyu-langone-performs-worlds-first-fully-robotic-double-lung-transplant>

5 See, for example, *The Age of Edison: Electric Light and the Invention of Modern America*, Ernest Freeberg, 2013. Penguin History of American Life.



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