

Looking for Leadership:

This past week has been a positive one for stocks. The market is at present looking through the immediate future and has discounted much of the bad news. What is particularly interesting is that much of the move higher has been led by sectors which have been at the very centre of the turmoil. Retail, Banks, Restaurants, Energy, Hotels, Casinos and Cruise Lines have all bounced as investors look forward to the prospect of the US slowly re-opening its economy.

We feel that it is premature to get too excited about the recovery in some of these sectors and believe that with this amount of damage done to consumer confidence, it makes sense to wait and see which industries and companies can make a full recovery. It seems most likely that when the lockdown restrictions are lifted people will not go straight back to how they lived pre-virus. Take hotels for example; is it realistic to believe that business travel bounces back to January levels? There will clearly be some relief and some business travel will return but bearing in mind that most hotels require occupancy rates of north of 80% to be profitable, they may struggle to get anything like those numbers over the next few months. Airlines have a similar problem, as do the cruise lines. One interesting datapoint that I saw last week was that bookings for 2021 are holding up ok for cruises (for now), but it seems cavalier to believe that some if not most of those bookings won't be cancelled at some point over the next few months. These companies are burning cash and have no income.

Retail is another minefield of uncertainty, who survives and who doesn't is a game that we don't want to play. The only "retailer" we own in the fund is Amazon, which is emerging as a clear winner in this environment. In this and other areas we are looking for, and investing in, those companies that will not only survive this crisis but also thrive under it and come out stronger than before. Bob Swan, the CEO of Intel, quoted Andy Grove, the former CEO of Intel's, famous line last week on its earnings call:

“ Bad companies are destroyed by crisis. Good companies survive them. Great companies are improved by them ”

This is a mantra we very much believe in, so we are not chasing the sectors mentioned above just because their stock prices are going up. We are on the look out for leadership and this often changes as the cycle turns, but we do not believe that any leadership from sectors like the restaurant industry is likely to be anything but short-term. Where we are finding leadership, which is backed up by solid fundamentals, is in the Tech, Healthcare and Consumer Staples sectors. One company that we recently added to the portfolio is DocuSign. This company has software that allows companies to remotely sign documentation and in so doing facilitates remote contracts and agreements. It is this

type of company that we believe is well set for the future, which looks destined to become ever more remote, rather than companies that depend on crowds of people attending the same venue for their revenue.

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