WORLDWIDE
ASSET MANAGEMENT

MARKET PERSPECTIVE

The Source Of Good Performance

"Take a few simple ideas – and take them very seriously"

By Bo Knudsen, Managing Director and Portfolio Manager

Certain companies perform commercially better over time. Their results are reflected in their long-term share price performance. The same applies to individuals. Some people perform commercially better over time, and this is something investors can learn from.

A company is very much an organisational unit: a group of people making choices. Making dynamic decisions in a changing world is what charts a company's long-term direction for the future.

The cumulative effects of the choices a company makes are the source of its long-term performance, be it good or bad. That is reality. Typically, if a company is driven by fear, it will not be a long-term commercial success. That is a fact.

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So which are the right choices to make?

In their book 'The Three Rules', Michael Raynor and Mumtaz Ahmed take their starting point in an in-depth statistical identification of companies that have proven to be exceptional in the long-term and of the choices they make. The authors conclude that there are three (two!) rules for the choices these exceptional companies make:

1. **Focus on revenue before cost**
   - Cost-cutting is not the key to achieving greatness and growth. Exceptional companies focus on revenue-driving operations rather than cost-cutting.

2. **Better rather than cheaper**
   - Create better products and customer experiences rather than compete on price.

3. **There is no third rule**
   - The authors looked into a number of other 'rules', but found nothing that systematically made a difference.

If we were to transfer these rules from the corporate world to the world of individual people, the three most important characteristics would be:

1. **Self-confidence: the ability to think in terms of moving forward, even in challenging situations**

2. **The desire to constantly want to develop and improve**

3. **Again, there is no third rule**

Well-known coaching gurus like Tony Robbins and Deepak Chopra describe from different angles the almost endless opportunities open to those who have the right mindset. We are strong believers in that approach.

The opportunities open to those who have the right mindset are almost endless.

But then again, the reality is that, structurally, some individuals and companies have a better and broader set of options. In 2016 and beyond, it is undoubtedly more difficult for individuals or businesses to achieve greater commercial success in war torn parts of the world than in Palo Alto, California. In certain geographical and cultural areas, it is easier to create a long-term commercial success, and in certain industries is it easier to differentiate oneself from the rest and to create and maintain a competitive advantage. This is something investors can learn from if they allow themselves to do so.

The freedom to choose faces many restrictions in the investment industry in 2016. Short-sightedness, benchmarking and a longing for consistency for consistency's sake are three main reasons for this unfortunate situation.

The system imposes restrictions on investor thinking, leading them to invest in a huge number of average performing companies that, for different reasons, cannot or will not improve over time. For this reason, no extraordinary value creation occurs over time. Extraordinary value is created by investing in those extraordinary individuals and companies who believe it is possible to create extraordinary value over time and who are in a good position to do just that – also, obviously, taking into account the price paid for shares in these few select long-term winners.

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Schumpeter introduced 'creative destruction' as an organic and dynamic concept more than 70 years ago. Today, his concept is more relevant than ever. In some industries, such ground-breaking change – in which the existing product is outperformed by the new – happens only slowly. In fields with long product cycles, e.g. foods and healthcare, strong global players have built positions with strong brands, a good local understanding and comprehensive distribution networks that are well-positioned and prepared for future generations.

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A long-term perspective pays off

Over the next ten to twenty years, especially three trends will play a key role in driving creative destruction:

1. **The catch-up potential in selected emerging market economies**

2. **The internet**

3. **The upcoming energy and transport revolution**

People working in the organic units known as companies must have an in-depth understanding of these trends to make the choices that will create the few select long-term winners.

You will rarely win a prize in a lottery, and the equity market is not a lottery in the long-term.

The basic assumption that the equity market is a kind of a lottery makes sense to most short-term investors. You will rarely win a prize in a lottery, but over the long--term the equity market is not a lottery. In fact, a long-term investor has a high probability of a positive capital return.

The long-term investor considers the long-term trends that create winners and losers. The long-term investor evaluates each decision made by these companies and considers whether they are generally strategically correct from the perspective of global thematic insight.

The source of good performance is quite simple. Certain companies – like certain individuals – perform better than others over time. The skilled investor is able to understand and select the few from the crowd when the price is right. It is by accepting this reality that we will find the winners of the future.

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Figure 1 shows the performance of C WorldWide Global Equities (gross of fees) relative to the MSCI AC World index incl. net dividends over more than 25 years. The relative difference can be explained by, among other things, the choices the winning companies have made over time. We as long-term asset managers have also been on this journey. We have carefully picked specific company stocks for our Global fund that we believe will benefit from tailwinds – also in coming years.

Figure 1:

Investment Performance Global Equities*
(start index 100)

Source: C WorldWide Asset Management

**Past performance is not a guarantee for future returns. For a further description of the risks involved in the investment strategy, see the Key Investor Information and prospectus for the fund on cworldwide.com. The benchmark is MSCI ACWI incl. net dividends (In January 2010 the benchmark was changed from MSCI World incl. net dividends).*