



Good Old-Fashioned

We often introduce ourselves to prospective clients, friends and strangers as “good old-fashioned, long-term investors”. In an environment where returns are counted by the day, there is a tendency to equate this approach with being stuck in the past and out of touch with the future. Let’s challenge this perception.

We are long term investors

In practice, this means our starting point in any investment journey is to peer at least ten years into the future. We sometimes have a clear idea of what this future should look like and sometimes we don’t. Where we do, we decide to pursue our enquiry further or we stop straight away. Companies that are poorly positioned from a sustainable development standpoint or show little will to evolve fall into the latter category. If a business and its direction of travel fits well with the sustainable development of the economies they operate in, we continue on our path of enquiry. This is still just the starting point of our journey, akin to the first few hundreds of thousands of years after the big bang. Matter as we know it is yet to be formed.

Finance literature is usually accompanied with a caveat emptor that past performance may not reflect future returns. To our simple minds, it is impossible to comprehend the future of anything without knowing its history. Physicists would be scratching their heads if they were asked to predict the future of our universe without any knowledge of its evolution until now. Companies are no different.

So what in the past are we looking for?

Histories of people, companies and economies

The backbone of our investment philosophy is to find owners and management teams with integrity, competence and humility. But why are people important? People create businesses, run them, and can destroy them. Most importantly, we believe that the best managers think ten years ahead and start shaping their business today in order to remain relevant. Any conversation around sustainable development with managers is meaningless if timeframes are ten months and not ten years. Unless we peer into their past we have no way of coming to any reliable conclusions about whether we are backing the right people.

The evidence that companies can address opportunities and risks down the road mostly lies in their culture. Becoming historians is key to understanding company cultures. The tracks they have left, the speed at which they have travelled and the paths they have chosen gives away many clues as to how companies might navigate the future. The best businesses thrive over decades because of these evolutionary dispositions in their culture. Similarly, our views on most topics don’t stand still. We take a Bayesian approach and update them when there is sufficient evidence and reason to do so.¹

Sustainable development of economies is more than just a catchphrase. At the heart of it is imagining a future that will be underpinned by more equitable societies, less resource-intensive consumption and the benefits of development reaching everyone. Investing behind this future requires an understanding of what did not work in the past and why. A reading of economic histories and an awareness of cultural nuances is key to predicting the twists and turns in the developmental paths nations take. History also reminds us to pay attention to political systems and their checks and balances. These are risks we simply cannot ignore over the long term. Hence we favour companies that build themselves away from political patronage and thrive on their own merit.

Good old-fashioned – surviving the test of time

As investors looking for growth, our choice is primarily between quality businesses which can continuously evolve and the disruptors. In our view, the current investment climate heavily favours the latter, a feature of investment bubbles. We are happy to back the disruptors for whom profits today is a choice. And their postponement to the future is evidence of long-term thinking and strategy. However, we struggle with businesses where generating profits is outside of their control even if they are well-positioned for sustainable development. Not taking the risk to invest in such businesses is often construed as being old-fashioned. But this old-fashioned approach has worked for us and our clients over many cycles and through many investment bubbles. On the contrary, we should be questioned if we stray away from our tried and tested path.

Milkomeda is not a figment of my imagination. Scientists predict that our galaxy, the Milky Way, will collide and merge with its cosmic neighbor Andromeda roughly 4.5 billion years in the future². Such predictions would not be possible without a precise understanding of the evolution of these galaxies, their surroundings and literally, their pace and direction of travel. Similarly, our portfolios are designed to contribute to, and benefit from, a sustainable future helped by a sound analysis of the history of people, companies and economies. “Good old-fashioned” has survived the test of time because it always had its eyes firmly set on the future. And the past has served it as a remarkable place of reference and learning.

Perhaps, the caveat emptor should read “Ignoring the past can be risky for future returns”.

Sashi Reddy

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¹ Bayesian approach refers to the theory of conditional probability by 18th century mathematician Thomas Bayes.

² Source: [space.com](https://www.space.com)

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View our list of [investment terms](#) to help you understand the terminology within this document.

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