



Trip Report: US

The emergence of trends that will likely shape the next decade, including cloud computing, automation, connectivity and artificial intelligence (AI), has created some appealing honeypots for investors to dip their paws into. These companies are often well positioned in the face of broad sustainability tailwinds and characterised by steady growth streams, so one can understand the allure.

As sectors like cybersecurity continue to receive outsized funding, the challenge for us as investors as we navigate the noise, is to pick out which companies will outlast the fads. We try to steer clear of companies exhibiting sales growth without a clear path to profitability, management enrichment schemes, or the use of financial engineering to maximise this quarter's earnings. Instead, we remain focused on finding companies with consistent cash-flow generation, strong balance sheets and reliable stewards, who are well placed to contribute to, and benefit from, sustainability. On our recent trip to the US, it also became clear that some of the very best companies are maintaining a laser-sharp focus on what their customers need, in many cases before the customers themselves know it.

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One company we visited during the trip, a leading provider of data and payments processing, primarily for the financial services industry, launched its platform-as-a-service (PaaS) in 2020. The platform can integrate add-on modules from the company and third-party solutions, enabling its customers to expand beyond their existing branch networks and seamlessly scale as their customers and deposits grow. This is particularly relevant for smaller community banks who, regardless of their core systems, have the toolkit to "deliver the digital experience their customers now expect."¹ The strategy is paying off, with

the business continuing to take market share, particularly amongst small banks with \$1-15bn in assets. The ability to stay one step ahead of customers has been absolutely critical to their prosperity in a time of rapid digital transformation.

In light of the feeding frenzy that characterises parts of the technology sector, with new and incumbent players alike vying for a seat at the table, adaptability to new challenges is central to a company's survival. One such challenge is the current labour shortage; the Great Resignation has affected all companies in some way, a fact we had acknowledged but hadn't quite understood the full extent of. On our drive to the San Jose airport, we caught a glimpse of a large black billboard with only four words taking centre stage: "Enterprise AI: We're hiring!" We came to understand the desperate situation that many companies find themselves in, and learned of the unique ways in which some of them are adapting.

A founder-run security software company based out of Sunnyvale, has long grappled with the challenge of nurturing and retaining long-term talent pools. This is exacerbated by the fact that their offices are located 5 minutes down the road from one of their largest competitors. In response, the business has trained 1.2 million people on cybersecurity to date and has teamed up with 385 academic institutions to offer specialised courses on cybersecurity.² Providing these educational opportunities is an initiative that will hopefully help train the next generation of talent and attract greater diversity.

A third company that we visited, a leading 45+ year-old provider of equipment to semiconductor chip manufacturers, faces a similar issue. Amid rising talent wars and changing employee expectations in Silicon Valley, the business has strayed off the beaten path and chosen to establish its second North American headquarters in Ann Arbor, Michigan. The area offers exposure to a robust talent pipeline, anchored by proximity to the University of Michigan. Michigan is also at the forefront of automated vehicle testing projects and legislation, enabling them to be close to automotive original equipment manufacturers (OEMs) and stay ahead of their evolving needs. Their decision to take a long-term view on tackling labour shortages stands out against the mainstream approach of aggressively ramping up stock compensation to attract and retain talent.

What these three companies all have in common is a drive to invest in innovation and talent over the long term, without succumbing to the 'Wall Street Game.' Part of the bedrock that enables this mindset to take shape is management tenure. These businesses are all run by individuals who have spent more than 20 years at the companies, helping reinforce unique cultural traits that span years, if not decades. As digital transformation continues to drive change in an increasing number of industries, we continue to seek out companies with these enduring characteristics.

Hanna Ranstrand
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¹ Source: [PR Newswire](#), January 2020.

² Source: [Company reports](#), October 2021.

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