GUTZWILLER ONE

MONTHLY REPORT

FEBRUARY 2020

In February the fund was down -6.95% compared to the S&P 500 down -8.29%. The top performing stocks were NVIDIA, Cerence and Colliers Group, returning +14.2%, +1.7% and -0.2% respectively. The worst performers were Viper Energy, Cubic and Envista down -18.2%, -16.6% and -14.2% respectively. The largest contributing industries to performance were Semiconductors, Consumer Services and Utilities. The largest detracting industries to performance were Commercial & Professional Services, Insurance and Healthcare Equipment & Services.

Virulent Panic

The month end performance was defined by the spread of the Corona virus and the somewhat belated response by the western and particularly US stock markets to its effect on the global economy. At one point in February the fund had been up 5.7%[1] however in the last week the S&P 500 tumbled -11.5% to end up negative for the month. We are currently travelling in the US and have visited companies in Massachusetts, Indiana, Missouri, Kansas, Washington D.C. and Florida and across many industries such as Software, Banks, BioPharmaceuticals, Automotive, Corporate Consulting, Life Sciences, Property, Retail and Travel. In the majority of meetings we saw senior management such as Chairmen, CEOs and many CFOs. Based upon the conversations we had, we believe **most companies were sanguine about the impact from the virus – the exception being those in the travel sector** (and of course the maker of Corona beer[2]). In fact we were beneficiaries of the virus impact in Boston as we were able to procure cheaper than usual rates for our hotel. A taxi driver explained to us that the city was quiet due to the absence of what would normally have been a sizeable Chinese tourist population in the city.

The primary response of the companies we saw has been to keep employees safe and in many cases working from home has been a viable option. We believe a large number of the companies have either reduced or banned outright travel to Asia and it is clear there have been disruptions both for manufacturing and businesses reliant on expert engagement in the region such as consultancies. We are cautious of where the market could still head in early March. However, we believe Warren Buffett's adage of being greedy when others are fearful applies here. For example, one of the companies we saw (but not yet own) is an enterprise software provider that is a pioneer and leader in what we would consider to be a secular growth area of the industry, yet at the time of writing the stock is down 30% from its peak the week before. This is just one example of many we are seeing currently.

Big Getting Bigger

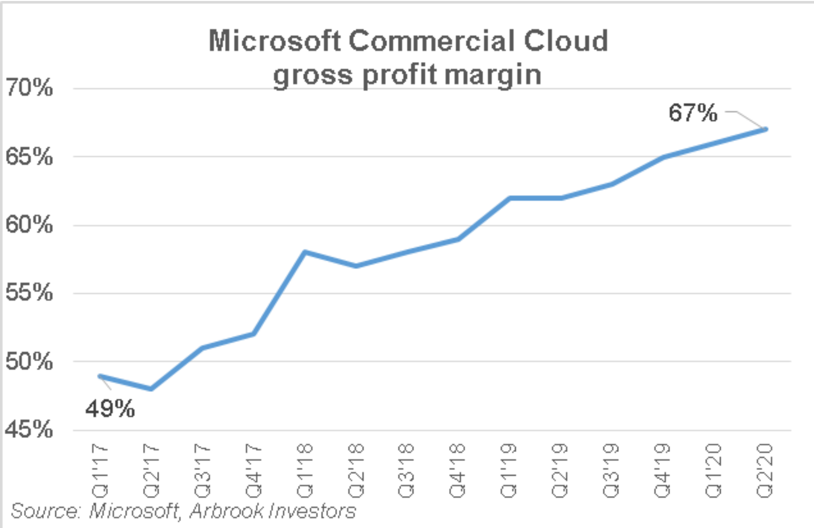
Over the last few months our opinion was that some of the larger companies within the US stock market were the most attractive stocks at that time. The strong results of Microsoft, Google, Apple and Amazon this year have vindicated that belief. To be clear, the fund is not an intentional "mega-cap tech ETF" and we believe our process works well across companies of all sizes.

We do believe, however, that **the current crop of tech "winners" are vastly profitable, very well run companies and at this time their stocks happen to appear relatively more attractive on a risk-adjusted**

[1] All prices and consensus estimates from FactSet 29 Feb 2020
[2] https://www.foxnews.com/food-drink/coronavirus-corona-beer-confusion-google-search

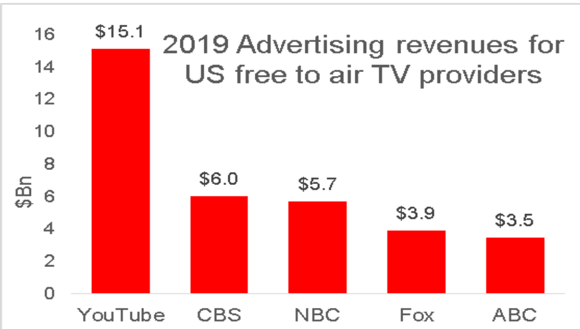
valuation than others. They also benefit from operational latency and global trends that few other companies can compete against. The stocks have performed well within the fund over the last year and we were actually in the process of starting to trim some of these positions prior to the virus scare. We do not feel as if we need to keep trimming any more in light of the last week of February.

Microsoft's CEO Satya Nadella made a comment in their latest quarterly earnings conference call that strongly resonates with us: **"On the next decade, the defining secular trend will be the increasing rate of digitisation of people, places, and things"**. This digitisation is enabled by the cloud platforms such as Microsoft's Azure and Amazon Web Services. Azure continues to grow rapidly at 62%[3]. The best indicator for Microsoft's ability to benefit from the proliferation of digitisation is the margin on their Commercial Cloud business which increases steadily as revenues grow and we believe should continue to increase if Nadella's prediction about the next 10 years is realised.



Source: Microsoft, Arbrook Investors

This month a long standing investment thesis of the Fund's took a step closer to being realised. This was the announcement by newly anointed Alphabet CEO Sundar Pichai of a host of new metrics on the company in the 4th quarter earnings and going forward. While Pichai had been running Google since 2015 it was only last December that founders Larry Page and Sergei Brin finally relinquished all day to day involvement with the company elevating Pichai to CEO of the entire corporate structure. **Greater transparency is the key to our Alphabet thesis** and data points such as the revenues of YouTube ($15bn of advertising plus another $3bn in subscription provided in the earnings conference call) and Google Cloud ($9bn) are now to be reported numbers.



Source: Company earnings and filings, Arbrook Investors

YouTube is a very important tool for the part of our research process we call scuttlebutt. We are, however, of the belief that for entertainment purposes YouTube is less used amongst older generations, at least anecdotally. Now with confirmation of YouTube's revenues we can see the actual scale that the online video platform has amassed and with it, we believe, market power. The chart inset shows YouTube's advertising revenues compared to the next largest broadcasting (i.e. free to view without a subscription) stations in the US.

While YouTube's advertising number includes international revenue we believe half would be appropriated to the US. For context NBC (National Broadcasting Corporation now owned by Comcast) aired the first ever

[3] All Microsoft and Alphabet numbers cited were reported on their respective 4th quarter earnings releases and conference calls

TV advertisement (for watchmaker Bulova[4]) in 1941. It is of course able to be viewed on YouTube here https://youtu.be/8JenAyMmZ68.

Big Getting Greener

Not only are the above mentioned companies flush with resources, but we believe **tech companies are likely the leaders in turning dollar profits into actionable environmentally friendly strategies**. Latency comes in many different forms and unlocking it comes in many different mechanisms. One such path to unlock latency is for companies to be recognised for the benefit they are providing to the planet. Microsoft announced in January[5] that it aims to be **carbon negative by 2030** and thereafter remove any carbon it has ever emitted. Google has been **carbon neutral for 10 years already** and is the largest corporate purchaser of renewable energy[6]. Apple even go so far as to **encourage the prolonged life of their products** and use recycled materials for casing and packaging where possible[7].

Regardless of one's personal views, **we believe it is undeniable that responsible investing is a clear trend**. As a result, we believe companies demonstrating real world commitment to positive corporate, social and environmental goals will be rewarded by investors. We also believe that the actions of companies are starting to have an impact, particularly as far as carbon emissions are concerned. In February the International Energy Agency announced that **energy related carbon emissions were flat in 2019 year-on-year**. Even The Economist begrudgingly highlighted the importance of this. In fact the US has been the single largest source of carbon emission decreases over the last 20 years[8], a trend that we have written about before. Given the focus by many large US companies on "being greener" we believe it is no surprise that solar photovoltaic installation mechanics and wind turbine service technicians are forecasted to be the two fastest growing jobs in the US this decade[9].

We believe **the Fund holds a number of stocks that will benefit from increasing recognition for their environmental credentials** such as the globally leading provider of mass transit systems software to the leading producer of renewable energy to those companies named above. All of which we believe are not yet fully recognised for their environmental benefits.

Institutionalising Innovation

It would be nice if we had a dollar for every time we have heard a company claim or seen an anecdote written about how the pace of innovation is accelerating. We are not sure these claims can ever be verified as innovation is a tricky concept to measure. However, what we do believe increases each year is the amount of effort directed to advancing technological knowledge.

Within the OECD the percentage of total population employed in research and development (R&D) has doubled in the last 40 years[10].

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[4] https://www.aaaa.org
[5] https://blogs.microsoft.com/blog/2020/01/16/microsoft-will-be-carbon-negative-by-2030/
[6] https://sustainability.google/reports/environmental-report-2019/
[7] https://www.apple.com/environment/
[8] https://www.iea.org/articles/global-co2-emissions-in-2019
[9] https://www.bls.gov/ooh/fastest-growing.htm
[10] https://data.oecd.org

The reason we are highlighting this is because **this year is the 120th anniversary of the founding of General Electric's Research Lab** (the "barn" in the background - inset), that was we believe the first modern industrial research facility in the US and possibly the world. Originally tasked with developing a better light bulb, it went on to develop electric fans, hotpoint stoves, medical x-ray machines and magnetic resonance imaging systems (MRIs)[11]. The importance of this lab cannot be understated as it brought science directly into commercial application. This is summed up well by the January 1937 edition of the Journal of Applied Physics:

The exact time at which the rather mysterious electrical demonstrations of academic lecturers began to be applied in everyday life is difficult to determine. ***Certainly however, sixty years ago, there were no electric lights, no electric locomotives or elevators, no large generators, no high powered transmission lines, and most important of all, no large commercial organizations interested in research.***

[11] https://www.ge.com