

Jassy: Jeff's Fresh Prince

by Alex Harvey, CFA

You will likely be aware that last month Amazon founder, Jeff Bezos, was blasted to the edge of space aboard New Shepard, a rocket designed to give fare paying customers an out of this world – and out of their seats – experience. His flight came just days after that of fellow billionaire businessman Sir Richard Branson whose company Virgin Galactic is also opening up a commercial venture. Surely Elon Musk can't also resist the ultimate ride? What fewer readers will know is that just a few weeks before Mr Bezos's pioneering flight he stepped down as CEO of Amazon, handing the reins to Andy Jassy, a 23-year Amazon veteran who in 2003 founded Amazon Web Services (AWS), its cloud computing business, and has grown it into arguably the biggest profit centre under the Amazon banner today. These two events were not directly linked, and Mr Bezos stays on as Executive Chairman, but it does shine a light on an important aspect of business operations and corporate governance: succession planning.

Most of the world's leading companies have a public figurehead who has charted the company's rise to where they are today. These pioneers have an emboldened vision and drive, often with a personality to match. Their influence today extends beyond the bounded corporate sphere into that of the public at large via social media engagement and self-promotion. No-one exemplifies this more today than Elon Musk, CEO of Tesla and spiritual leader to an army of devotees who follow his tweets. Mr Musk is younger than Mr Bezos but as his company grows and his interests pull him in different directions – above ground with SpaceX and below ground with The Boring Company – shareholders will increasingly focus on the executive team in place that maintains day to day operations at Tesla. Mr Musk also has a penchant for attracting the attention of media and regulators. His public musings can and do directly impact Tesla's share price and whilst shareholders have no doubt benefited from his leadership, he is not afraid to court controversy. After tweeting in 2018 that he had "funding secured" for a buyout of Tesla at \$420 he was effectively forced to step down as Chairman, thereby separating the roles of CEO and Chairman. With the stock earlier this year hitting \$900¹ investors might be forgiven for thinking that's no bad thing.

With corporate leadership often comes ownership, and this can be in size where founder CEOs like Messieurs Bezos and Musk are involved. Investors like to see 'skin in the game' and will welcome a degree of co-ownership with the senior executive team. Some of our investment managers actively seek out businesses, more often found in emerging markets, which are listed but retain

a sizeable founding family stake. Often these businesses will choose to groom a family successor and, in these instances, there is a balance to strike between alignment of shareholder interest and finding the best man or woman for the job as the business matures. Enhanced or preferential voting structures may limit an external investor's say in such matters. The gold-plated shares owned by Deliveroo founder, Will Shu, offer 20 votes a piece and ensure he retains control of the business, but big investors shunned the IPO and the stock fell.

Beyond the corporate level of the invested companies our funds own, we too at Momentum must ensure that our third-party managers have plans in place as senior, and often founding members, of their investment teams take a step back or retire. Our hunting ground tends to be smaller, younger, more niche investment companies and as such, the successful ones will face the same (but perhaps smaller) succession challenges that face Mr Bezos at Amazon. A successful boutique investment business by its nature is likely to have been founded by one or two investment pioneers, but will only flourish with a team to support them, and a new generation of leaders to ultimately take control of the business.

Within our own investment team as well, we are mindful of this balance. We like to 'grow our own timber' as we say, recruiting exciting young talent, some of whom joined after completing a university internship. Director of Investment Management, Andrew Hardy, carved out this route as did Portfolio Manager Richard Stutley. This helps ensure a pipeline of talent and cultivates a strong bond within the team, with more senior members on hand to mentor those starting out their careers. The founding member of Momentum in London, Glyn Owen, remains a key member of the team today in his position as Investment Director.

Succession is inevitable, but its success is not. Earlier tech pioneers like Microsoft show how this can be done. Four decades and three CEOs later and it is one of the most valuable companies in the world today, second only to Apple. As others fight over bragging rights in space, the older and more philanthropic Mr Gates prefers to focus his energy closer to home these days, with planetary and human succession higher up his agenda. With age comes wisdom.

¹ Bloomberg Finance L.P.



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