Global Matters Weekly

29 November 2021

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Opt out

by Richard Stutley, CFA

It is hard to know what is going to happen. While people like to hear a single view about the outlook for the global economy, with plenty of point forecasts for key variables like growth and inflation, the future is in fact best expressed as a range of possible outcomes; see my colleague Lorenzo La Posta's blog from two week's ago ("Embracing Uncertainty") for a good explanation of what this looks like in practice.

If something is hard, most of us would like to opt out. One way to do this is by investing in secular growth stories: no matter which way the wind is blowing for the wider economy, these businesses continue to do well as they take market share from other areas and come to account for a growing proportion of spending.

Of course there are no free lunches, so typically you will have to pay up to access these growth opportunities. Our focus is on finding areas where this is not necessarily the case, due to a failure by market participants en masse to price the opportunity correctly. We are not thematic investors, by which I mean we do not pursue a potential growth opportunity at any price, but only after a detailed assessment of fair value. We may think the growth outlook for a company or sector is higher than average, but we'll only buy it if the price is right.

We think we've found two such areas in the case of energy storage and digital infrastructure. We have been scrutinising the ability of our holdings to pass on inflation, but secular growth themes are less sensitive to this key variable for the reasons discussed above. Both energy storage and digital infrastructure are well placed to benefit from rapid increases in demand brought about by shifts in consumer behaviour: the urgent need to decarbonise the global economy puts a greater emphasis on green energy, and battery storage technology is a key enabler of this transition. Meanwhile we are seeing ever greater consumption of data, to assist us and the technology we use to become smarter and quicker (soon much of this technology will literally drive itself).

We access these areas through listed, closed-end investment companies. These monoline companies have straightforward balance sheets and publish a Net Asset Value (NAV), which helps to anchor the share price. As relatively small companies, they are inaccessible to larger investors and therefore end up being under-researched and underappreciated in our experience. We benefit from the smaller size of these companies, and this is often compounded by the underlying management teams focusing on small and mid-sized projects, which they can either acquire or develop at a discount to larger projects.

We can't invest exclusively in secular growth themes any more than we can invest exclusively in one country or sector: at all times it depends on what's in the price. However we are delighted on those occasions that we are able to opt out and focus on these kind of micro themes.

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Important notes