

Evenlode Global Opportunities Investment View

June 2023 - Insights and Observations from the C-suite and implications for the Evenlode Global Opportunities Fund.

The summer conference season has begun. During the next few months, management teams will take to the road to share their strategy and explain current performance. We recently attended the Bernstein Strategic Decisions Conference in New York, which hosted over 140 executives from leading US companies across a wide range of industries. This provided us with an opportunity to deepen our knowledge of our coverage companies and to discover potential new ideas. The conference also provided insight into management teams' thoughts on a number of key wider themes.

The productivity era & generative artificial intelligence.

This was arguably the number one message CEOs wanted to convey - unanimous enthusiasm for the productivity enhancement opportunities opened by generative AI. Even the CEO of Johnson & Johnson (a recent addition to the portfolio), felt compelled to remind investors that whilst they are a life science company at heart, they can also leverage this new technology to expedite drug development.

The three "hyperscalers" (Alphabet*, Microsoft* and Amazon*), provide the computing power to deliver these capabilities and are consequently in a strong position to benefit from generative AI. Similarly, creative industries including graphics, animation and gaming design have already seen a productivity boost from generative AI to originate code and accelerate content creation. At the conference, the CEO of Cadence, a company that provides software for designing semiconductors, highlighted the potential to capture a larger share of clients' R&D expenditure. This is because chips powering AI necessitate more advanced and expensive software tools for their development - a positive implication for Synopsys, a portfolio company that operates in a duopoly with Cadence. However, beyond these instances, we found that most other companies remain at the very early stages of the adoption cycle and are still developing practical applications for their "AI strategy" beyond back-office optimisation.

At present, management teams appear uneasy about incorporating the new technology into customer-facing applications. The CEO of Intercontinental Exchange*, stressed sensible concerns over generative AI releasing excessive amounts of proprietary data to the outside world. This concern is amplified by unresolved issues around contractual relations and ownership structures. Instead, short-term applications are likely to be focused on automating and accelerating manual work processes around production and supply chain for incremental cost improvements.

Another aspect we've been listening for, especially as it relates to a number of our portfolio companies, is the degree to which large language models powering chatbots will transform e-commerce search functionality and unlock a greater level of customer conversion. However, presentations from the eBay and Etsy CEOs suggested that this revolution is still some time away.

The macroeconomic environment.

The other common consensus at the conference was, that despite a fractious geopolitical environment, the US consumer continues to be resilient, although a moderate slowdown may be on the horizon.

Several consumer-facing companies noted little strain in their operations with pricing holding up well. Two US brewers (Constellation Brands and Molson Coors) presenting at the conference commented that 'premiumisation' trends are continuing, albeit with slight shifts in consumer purchasing patterns at the edges. Consumers are still drawn to super-premium brands, but are either reducing the average cost of a beer by opting for larger pack sizes if they can afford the cash outlay upfront, or buying smaller sizes more often. This contrasts with big-box retailers who conveyed a generally more negative perspective, having resorted to increased promotional activities to decrease inventories in some discretionary verticals.



Visa* and Mastercard's* insights into consumer spending patterns echoed these trends; while US dollar purchase volumes saw a slowdown in April and May, the number of processed transactions remained robust. A reduction in the average transaction size suggests some strain on large-ticket and discretionary items. Contrasting this, cross-border spending continues a healthy recovery, suggesting that consumers are still prioritising travel and experiences. However, consumer liquidity is declining as the CEO of Jack Henry* (a leading provider of core banking solutions) told attendees – US consumers are starting to draw down on their savings as the economy continues to be challenged. Goldman Sachs shared that consumers drive 70% of the US economy, hence the consumer's health is the economy's health.

The overarching take-away from the conference was positive for the Evenlode Global Opportunities portfolio. Although we agree that there is room for AI to accelerate production and supply chain work processes, and to drive incremental cost improvements, there are still several nuances that will need to be addressed before companies can experience substantial benefits from this emerging technology. Nevertheless, our portfolio companies are proactively investing in and learning about generative AI. As ever, we focus on building diversified, all-weather portfolios that can grow and compound in any environment. While we cannot predict the specific conditions lying ahead, we take comfort in the fact that our portfolio companies possess resilient cash flow generation capabilities based on robust economic moats.

We look forward to being in touch again with our latest insights.

Chris, James, Christina and the Evenlode team

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