FIM CAPITAL

Investment Management
BRIEFING

Quarter 2 | 2019

Bang Bang

In July 2020, Tokyo will host the Summer Olympic Games, the thirty-second version to be held since the Games were created in 1896. Of the original ten events, surprisingly, all but one, wrestling, remains in the 2020 programme. Every other sport hosted in the original 1896 event, from tennis to swimming, has withstood the test of time.

Although the nineteenth century athletes would no doubt have been amazed by the progression of their own disciplines today, they would have been even more surprised by the sheer variety of sports on offer. In 2020, the Olympic programme will include artificial rock climbing, surfing and skateboarding for the first time, with the likes of break-dancing already making a serious pitch for inclusion in the Paris 2024 Games.

The debate on what does and doesn't constitute a sport is an old pub favourite. The Oxford English Dictionary defines sport as an 'activity involving physical exertion and skill'; a wide definition, but one which seems to be captured by all the modern Olympic disciplines, in some way or another.

However, at this year's Southeast Asian Games (similar in scale to the Commonwealth Games), electronic or 'e-sports' will be added to the list of otherwise conventional medal sports for the first time. Traditionalists should look away now. The Southeast Asian Games are sanctioned by the International Olympic Committee, no less, and are big business. Esports (presumably dropping the hyphen out of respect for Generation Z) will include three 'categories', PC, Console and Mobile, each featuring several video game titles such as Mobile Legends: Bang Bang and Arena of Valor (sic).

The Asian 'King Pro League' tournament (essentially the gaming equivalent of football's Champions League) attracted a total daily 'attendance' of up to 240 million viewers in 2018 to watch a game called Honor of Kings. The first world cup tournament of Fortnite starts later this month and offers a $100 million pool of prize money put up by the game's creators, Epic. Tapping into the trend are the likes of McDonald's, Nike and Mercedes-Benz, just some of the brand names 'partnering' with 40% Epic owner **Tencent** in various sponsorship agreements. No need to travel to Mars, Elon Musk. We have another world on our doorstep already.

The LCS Studio in the ironically named Olympic Boulevard in Los Angeles is an example of a modern, dedicated esport venue where fans can see their gaming champions compete on a live (and televised) platform. Watching the preamble to one of these games is very similar to listening to the build up to a major American football or baseball game with the audience (tickets are about the same price as a Premiership football match) cheering on every move made by their favourite e-gamer.

Last year's King Pro League tournament in Shanghai.

If you are, like me, a BBC licence payer who enjoys the occasional box set, then you are probably in a demographic which has missed all of this. Esports may have passed you by, but they certainly will not have passed by your children or grandchildren. According to the Entertainment Software Association, 60% of Americans play video games daily and the average age is 34 years old, with a slight (but only slight) bias towards male players. This is dwarfed by the growth in the Asian market where the number of gamers is expected to exceed 1 billion by 2022 with revenues of $42 billion, according to market research and gaming specialists Niko Partners.

If the Southeast Asian Games experiment is successful, then commercial pressure to put esports in the Olympics will follow. In stock market terms, this is developing into a full-blown sub-sector and there is a myriad of ways to capture some of the potential future growth. Like the games themselves, such companies often come with their own set of health warnings. Income seekers and fans of low volatility, for instance, need not apply. But for the longer term, this is an area which should not be ignored. The odds of esports ending up like wrestling, much less tug of war (ejected from the Olympics in 1920), seem to be very low indeed.

Russell Collister
CHIEF INVESTMENT OFFICER - APRIL 2019

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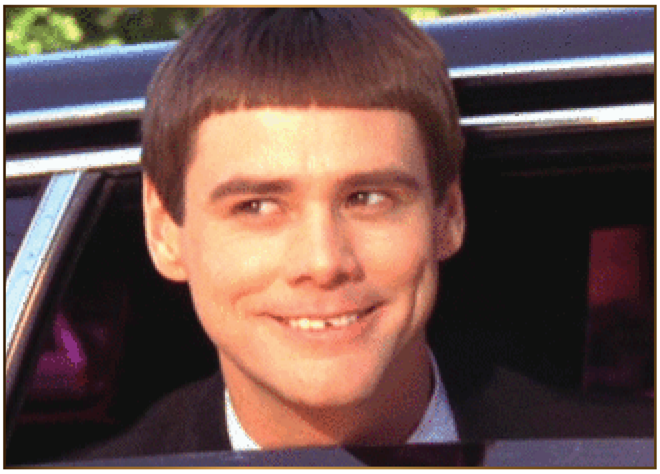
The Optimism of Lloyd Christmas

Lloyd Christmas: "What are the chances of a guy like you and a girl like me…ending up together?"
Mary Swanson: "Not good."
Lloyd Christmas: "Not good like one in a hundred?"
Mary Swanson: "I'd say more like one in a million."
Lloyd Christmas: "So you're telling me there's a chance?"

(Dumb and Dumber, 1994)



Spare a thought for the ever-optimistic Lloyd Christmas, one of the two hapless but oddly fortunate adventurers from the 1994 film, "Dumb and Dumber", played by Jim Carrey. Even in the face of ridiculous odds, he is unwilling to give up on his dream that the wealthy Aspen resident, Mary Swanson (played by Lauren Holly) might someday fall in love with him, having assisted in the rescue of her kidnapped husband. Considering the title of the film, it is perhaps not surprising that this denouement followed a cascade of mishaps and errors enacted by Lloyd and his arguably less dumb friend, Harry Dunne (Jeff Daniels), however this last plea, full of awkwardness and jumbled personal pronouns, illustrated a serious mismatch between the reality of the situation and Lloyd's fantasy world of hopes and dreams, a conflict not entirely confined to slapstick comedy stories.

Why else would Terry Smith, of the eponymous Fundsmith LLP, feel the need to state something which should be obvious to any longer term investor, saying: *"we work on the principle that in order to maximise long term profits, you should choose investments with the highest probability of an acceptable profit, rather than those with a small probability of a very high profit (and therefore a much larger probability of a loss). We attempt to achieve this by not trying to predict winners, but by only selecting companies that have already won."* As someone whose flagship fund has delivered annualised returns of over 18% since its inception nine years ago, this advice surely must carry some weight. Well of course it does, but is everyone listening? If the world thought this way, there would be no 200/1 bets at the Cheltenham Festival. The fact that this might only be a winner for one in every hundred punters is beside the point, for as long as hope reigns supreme over logic.

Having recently experienced some unexpected down-time to read the bittersweet account of doctor-turned-author, Adam Kay ("This Is Going To Hurt"), one common complaint raised in his novel was the tendency of friends and relatives to consult him on their medical foibles outside of work. Well, doctors and nurses: you recently exacted some sweet revenge. Sprawled on a hospital gurney, heavily dosed with morphine and having her insides x-rayed, a somewhat helpless investment director was intensely quizzed in February on stock selection, market liquidity, MiFID II and other sundry concerns by an ex-stockbroker, turned nurse. To be honest, it was a pleasant distraction from the proceedings in-hand and offered some sanity to cling to in somewhat uncomfortable surroundings. Often less pleasant, however, is when one is used as a sounding board for certain Lloyd Christmas-like investment ideas which are often risky, occasionally barmy and usually unwise. Yet, when asked to bestow my 25 years of investment wisdom upon such nuggets of delight, I can identify with the cursed daughter of King Priam, Cassandra, who told prophecies no-one believed. I surmised that my problem was a combination of a) an innate inability to lie tactfully (I usually tell it as it is) and b) the dreams of avarice, which these individuals had carefully constructed on the back of a beer mat after a few feverish nights, coming up hard against the Swanson-like harsh truths of prudent investing, as forcefully as the high tide against Douglas Promenade in a storm force wind, evaporating their hopes like sea-spray. With some sympathy, I observe their growing dismay when I inevitably pop that "immediate high-return, low-risk" imaginary bubble, often tempted instead to repeat the courtroom outcry of Jack Nicholson's Colonel Nathan R Jessep, from another (vastly more sober) film: "you can't handle the truth!"

It is my experience, alas, that those mousey words of Robbie Burns, "the best laid plans o' mice an' men gang aft a-gley", are too often used as a great excuse not to bother making longer-term investment or life decisions. I suggested in our last Investment Briefing that the current zeitgeist appears to be "carpe diem" rather than Warren Buffett's adage that "you can't produce a baby in one month by getting nine women pregnant" (i.e. some things take time). As a man who was initially rejected by Harvard Business School, bought his first stock aged 11 and made money as a teenager by delivering newspapers and washing cars and is now worth circa $80bn, my money would be on Buffett, rather than Burns. Time and again, we are told by behavioural economists, old hands like Buffett and Terry Smith or numerous (numerate) mathematicians that we should invest for the long term, not trade too much and look at our portfolios infrequently, if we want to build a decent pension. Yet, as my fellow investment directors and I are regularly divested of our £1 coins, for fear of missing out on that one in-a-gazillion chance of winning the National Lottery office syndicate and being the only one left in the building, the optimistic dreams of Lloyd Christmas still live on, inside us all.

Mary Tait
INVESTMENT DIRECTOR

Target Practice

"Life, Uh, Finds a Way"
– Dr. Ian Malcom (Jeff Goldblum), Jurassic Park, 1993.

In 2015, world leaders gathered at the United Nations' headquarters and declared its 17 'Sustainable Development Goals' (SDGs) which would dictate much of the expected $2.5 trillion to be spent on them by 2030. Broad in nature, the underlying motives behind them are, on the whole, quite laudable; at least in such a way that they represent a cohesive effort to make the world a better place (ending poverty, ending world hunger, and tackling climate change, to name a few). Words are easier than action however, and while these SDGs have been compiled with good intentions, anyone who is time-poor (or just poor) will tell you that only so much can be achieved in a world of finite resources.

At a smaller level, sensible people will prioritise mortgage repayments over expensive cars and lavish holidays, or dedicate years studying for their degree before backpacking in Australia. Everyone has different priorities at any given time and while each can be tackled in isolation, the difficulty compounds as attention is split between multiple objectives. Similarly, the FIM-sponsored Manx charity "Beach Buddies" would not be nearly as large and as well-recognised as it is today, if its founder, Bill Dale, spent an equal amount of time working at the local hospice (admirable as this might be) as he does spreading the message about our precious shorelines. Essentially, doing a little bit of good everywhere is less effective than doing lots of good in specific, prioritised places.

In an ideal world, areas where we could affect the most positive change would naturally float to the surface of the media, getting the attention they deserve. The unfortunate reality is that we focus most on those topics which make the headlines, be it those with the best PR or those with which we resonate the most. In that context, it makes sense to order those 17 SDGs by maximum impact, however this is made all the more difficult because overlying these goals, the UN has highlighted a further 169 targets to achieve by 2030. The fact there are as many as 169 targets to begin with is symptomatic of the "natural political inclination to promise all good things to everyone" (Finn Kydland, Economics Professor & Nobel Laureate) without recognising that the impact returns from some of these targets are negligible at best.

A project called the Copenhagen Consensus (run by the Copenhagen Consensus Center and conceived by Bjorn Lomborg) performed a series of cost-benefit analyses on these targets to rank-order them by overall economic, social and environmental impact per dollar spent. The aim was not to argue specifically for or against investment in any selected areas, but instead to provide a sense of direction when policies are driven by emotion. Like a menu at a restaurant, you don't always go for the priciest item available and may instead prefer something suited to your nutritional needs. The project highlighted that focusing on the top 19 targets, such as reducing chronic child nutrition, reducing trade restrictions (full Doha), and halving malaria infection, could deliver $20-$40 of social benefits per dollar spent. By contrast, dedicating an equal funding to each of the 169 targets would reduce that per-dollar gain to less than $10. Putting it another way, the budget could be quadrupled if efficiently allocated.

Most of the top nineteen ranked low in the priority ladder when measured in terms of emotional resonance, especially in relation to the developed world, where we can afford to be more selective about issues to address. For example, solutions for tackling climate change, whether by taxing carbon emissions or drastically overhauling a nation's energy practices (such the Green New Deal proposed by Alexandria Ocasio-Cortez in the US), now feature heavily in the political sphere, at a time when tuberculosis is barely recognised. However, when analysed on a cost-benefit basis, measures designed to reduce carbon emissions are disappointing. A paper from the Copenhagen Consensus notes that "a target to keep temperatures at 2˚C below pre-industrial levels has lower benefits than costs", returning less than one dollar for every dollar spent. Investing 0.5% of GDP into energy technology and RD&D (Research, Development & Demonstration) on the other hand, is expected to return $11 for every dollar spent.

The cold hard economics presented by the Copenhagen Consensus could never replace media sensationalism as a whole and, while tuberculosis remains a major cause of global mortality, despite having a low-cost and highly effective treatment, it has yet to garner the same kind of emotionally-charged approach we see towards climate change, recently manifested in a series of school walkouts, suggesting that the end of the world was nigh. One might be forgiven for thinking these youngsters were relatively unfazed by the issue but were more than happy to dodge school for a few hours. Maybe I'm just being cynical?

Michael Craine
INVESTMENT MANAGER

People

Lower chronic child malnutrition by 40%
Halve malaria infection
Reduce tuberculosis deaths by 90%
Avoid 1.1 million hiv infections through circumcision
Cut early death from chronic disease by 1/3
reduce newborn mortality by 70%
Increase immunization to reduce child deaths by 25%
Make family planning available to everyone
Eliminate violence against women and girls

Planet

Phase out fossil fuel subsidies
Halve coral reef loss
tax pollution damage from energy
Cut indoor air pollution by 20%

Prosperity

Reduce trade restrictions (full doha)
Improve gender equality in ownership, business and politics
Boost agricultural yield growth by 40%
increase girls' education by two years
Achieve universal primary education in sub-saharan africa
Triple preschool in sub-saharan africa

(The 19 targets that represent the best value-for-money in development between 2016 and 2030, as selected by an expert panel at the Copenhagen Consensus, comprising of Nancy Stokey, Thomas Schelling and Finn Kydland)

Who Are We Now?

Wyatt Earp, Pizza Hut and World War II's most expensive weapons project all have connections to Wichita, which sits in the lowland region of the Great Plains. Pre-1800, roughly 60 million bison roamed this American wilderness before numbers plummeted to less 1,000 at the turn of the last century. Wichita's plains, which once supported these magnificent beasts were replaced by factories building Boeing B-29 Superfortress planes which eventually dropped atomic bombs on Japan.

Where we're going, we don't need roads.

Perhaps we have learnt from the error of our ways, preventing further destruction? Certainly, blame evolution rather than Wichita, a city more commonly associated with Glen Campbell. The song "Wichita Lineman" was written in 1968 by Jimmy Webb, inspired by men working alone in extreme weather, dangerously repairing faulty telephone lines. These were skilled blue-collar workers who played a vital role in the massive infrastructure investment undertaken in the industrialised world. Today, it's less easy to romanticise about technological or infrastructure advances, as we edge towards materialism, spending our final years in a nursing home with our every need satisfied by robots, while the next generation sits at home playing video games. Yet, does it matter? As an elderly person, I suspect I won't care but as an investment manager seeking decent returns from emerging businesses, it's an exciting thought.

Technological advances are gaining momentum. In ten years' time there is a real chance that we will no longer recognise our living environment. Combustion engines, gear sticks and steering wheels will have gone, some will be cohabiting with robots and verbal communication will further diminish. Governments will be on a war footing to combat climate change, as disruptive weather patterns cause population dislocations of biblical proportions. Britain may even be the only country left in the EU, after Barnier and his cohorts realise that it's easier to leave Europe than to persuade the UK to leave. Pleasures will be heavily taxed because of their environmental impact, while urbanisation will slow, as pollution and weather increasingly disrupt daily life. For every problem, technology will present a solution.

Such changes also create threats, resulting in higher stock volatility in vulnerable sectors. Once a company exhibits decent margins, technological shortcomings or low barriers to entry will render it a target for entrepreneurial disrupters, tapping into an almost unlimited pool of venture capital cash. Industries which fail to invest quickly find themselves on the back foot, struggling to maintain traction. The global auto industry is a prime example of complacency, opening new doors to upstarts such as **Dyson**, **Coda Automotive**, **BYD** and **Tesla**, proving that size is no deterrent (as demonstrated by the British coal industry, which once employed 1.2 million people). We should ask whether this same demise is now taking place across the banking sector, traditional advertising, fashion, general financial services and retail, for example. **RBS**, **Marks & Spencer**, **WPP** and **Royal Mail** have done well to survive this long but can they adapt? Turn the clock back thirty years and many investors would not recognise the market heavyweights; **Plessey Co.**, **Racal Electronics**, and **Ferranti** being yesteryear's tech stocks, all of which are now gone. Then there were the conglomerates, such as **BTR**, **General Electric** and **Hanson Trust**. Again, all gone. Yet, the question every investor should be asking their manager is: what do you do when the writing is on the wall? Are you like a startled rabbit in the headlights, oblivious to an imminent end, in a state of denial or simply frozen with fear, hoping your benchmark will cushion the impact?

A few years ago, an investment professional called Lee Freeman-Shor wrote a book called "The Art of Execution" in which he described different types of investors. Unsurprisingly, "rabbits" made up the majority. These are influenced by consensus opinion, frequently blame the market and fall in love with stocks, rather than evaluating fundamentals. Inactivity typically follows adverse price movements and portfolios are dominated by familiar large cap names, "mutton dressed as lamb" and exchange traded funds. "Assassins", on the other hand, know their stocks but actively use stop-losses. They are not swayed by consensus and run their winners, regardless of the scaremongering which follows hot on the heels of outperformers. Stock volatility can lead them to sell potential winners. Then there are the "raiders", who take profits too early and head back into cash. "Connoisseurs" also take early profits but tend to leave much more on the table to carry on running. Lastly, there are "hunters", investors who perhaps bought too high initially but have strong convictions and will therefore keep buying in a market correction.

So, sticking with the music theme "Who are you", what are we at FIM? We are certainly not "rabbits" or "raiders", nor indeed "assassins". I would perhaps suggest a cross-breed of "connoisseur" and "hunter". The proof? Visit our **Pound a Day Portfolio** website, which details our range of four low-cost options. The **American Selective** portfolio was established in December 2014 and we still hold its original 16 stocks. Its annualised return in US dollar terms is just under 10%. The sterling-based **Selective Growth Portfolio**, with a focus on emerging UK FTSE 250 companies, has experienced higher levels of activity, but with annualised returns since its inception six years ago of around 12%. Such numbers will be music to the ears of our clients and provides proof for others that not all active managers are the same. I guess it must be time to "Hit the Road Jack" and visit a few more companies now.

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INVESTMENT DIRECTOR

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The investment team at FIM Capital Limited hopes that you have enjoyed reading our articles this quarter. If you are not currently receiving our Investment Briefing on a regular basis but would like to do so in future, or you wish to inform us of a change in your contact details, please contact Viv Hounslea at vhounslea@fim.co.im. Equally, please contact us if you no longer wish to receive our Briefing and we will remove you from our mailing list.

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