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# An interview with Alexander Darwall

Alexander Darwall, Head of Strategy and Fund Management Director, European Growth

Alexander Darwall, Jupiter's Head of Strategy, European Growth, explains in this interview that he does not invest depending on the macro environment. Instead, he looks for special companies that, tapping into secular rather than simply macro growth drivers, should be well rewarded over the long term.

## What makes a company special?

We define special companies in two ways. First, we look for companies that can prosper in a range of economic environments because we would never claim to be able to predict what twists and turns lie in the future. This is crucial, particularly in light of big, unpredictable political and trade issues such as Brexit, which has the potential to force investors into making binary calls, a scenario we try to avoid. In the strategy, many of the companies we favour are geographically diverse and global, and as a result of this preference we don't own utilities or domestic banks.

The second way we identify special companies is to look for the exceptions to the rule, namely companies that can deliver superior products or services with higher growth rates and margins than the market expects. Theoretically, in a competitive economy, when companies post high rates of growth with high margins over a long period of time, competitors typically enter and erode those margins. If the market doesn't do this, regulators are supposed to perform this function. We try to find companies which are less vulnerable to regulatory change yet retain significant barriers to entry and are thus more likely to prosper for longer than expected. In the strategy, the growth characteristics of many of the companies are driven by their exposure to intellectual property, rather than capex, as we prefer companies with flexible assets over those that are more fixed.

## How can companies navigate changing economic cycles?

We believe change leads to opportunities. For example, consumer demands are changing across various sectors and industries around the world. Sea cruises are seeing demand grow faster than tourism to land-based alternatives. Many alternative finance companies, a key area for the strategy, are displacing a variety of previously integrated activities of mainstream banks. Leasing, digital payments, non-standard lending and debt collection companies are examples of alternative finance businesses that are growing because banks cannot meet new consumer demand and regulatory challenges.

## How do you go about finding these companies?

First, we view engagement with companies as vital to understanding the business. We spend a lot of our time talking to companies to find out what does and doesn't work. Much of my time is spent trying to identify patterns of success at different companies at different times in diverse sectors. We always look for the same things: pricing power, a sustainable advantage, and a lack of dependency on third parties. In other words, companies that are in control of their destiny. These are companies on the front line that can spot change in the real world and identify opportunities and challenges faster than anyone else.

We also place utmost importance on corporate governance. We believe one cannot separate corporate governance from investment, and that good company culture is integral to a successful investment.

## Have you identified companies with these characteristics across sectors? Are there sectors which are more attractive than others?

We don't have sector experts. Instead, we have investment experts – and there's a big difference in mentality. Our expertise can be applied across many different sectors, from large caps to small caps, irrespective of the country of listing within the European remit. Our best ideas often come from being able to draw conclusions from this total market coverage approach, rather than operating with the silo mentality of sector coverage.

I mentioned alternative finance companies earlier as an example of a sector that we find attractive. Elsewhere, digital disruption presents new opportunities even as high street retailers are in retreat. The 'internet of things' is still in a very early phase but it impacts most sectors, from automation in the shipping industry to bookings in the tourism industry. We also have no doubt that there is more to come from cybersecurity disruption. As ever, there will be winners from that process, too.

Finally, healthcare is an area where we believe winners will emerge due to changing technology and regulation. For example, the drive from health authorities around the world to reduce antibiotics is benefiting those companies that specialise in proven, quality diagnostics that enable targeted treatment, rather than relying on catch-all antibiotics.

## How often do you check if a portfolio company is still special and when would you sell stocks?

We try to stay on top of what is happening with the companies in which we invest. The main factor that would lead us to lose faith in a stock and sell the position is a fundamental change for the worse with the company's business model. Secondly, we want to run a relatively concentrated portfolio, so if a highly attractive new idea comes along we might sell one of the existing portfolio holdings to make room. To a lesser degree, we sell if we believe the valuation has become stretched and no longer represented good upside potential.

## To what factors do you attribute the long term outperformance of your strategy?

A clarity of purpose has been key. We have consistently looked for the same set of characteristics in companies across sectors and geographies – exceptional companies that could perform well in different market conditions. We also work in the same consistent way. We have taken the view that if the inputs are consistent, such as our ongoing engagement with companies, cross-referenced against other sources, we stand the best chance of achieving the same outcomes. We have also not been afraid to back our judgement, avoiding the herd behaviour of the market which is periodically prone to over-exuberance and panic.

## How has your style evolved over time?

In essence, the type of companies we look for hasn't changed much at all. Gaining more experience over the years helps of course, as does learning from past mistakes. One area of research that has gained in prominence for me is the focus on corporate governance, particularly the value of meeting middle management and the non-executives, in addition to the management team.

## What do you enjoy most about the job?

The enthusiasm stems from discovering a few exceptional businesses and engaging with some of the great entrepreneurs of our times. Ultimately, when we use our experience and judgement to make the correct investment decisions, it is enormously satisfying. The scale of risks and opportunities around us is almost overwhelming, but our mindset is that there will always be some big successes. Of course, we may not be able to find them, and we make many mistakes, but we have no doubt that the opportunities are out there.