

MONKS INVESTMENT TRUST

2022 RESEARCH AGENDA



Actual Investors

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MAY 2022

MONKS INVESTMENT TRUST

2022 RESEARCH AGENDA

*The Monks investment managers on deep work,
technological innovation and impact investing.*

We first published our Research Agenda in 2013. As such, this edition represents the 10th version we have shared. Several of the areas included in this current iteration, such as the great energy transition and accelerating changes in healthcare, build on topics that we first introduced in previous agendas and which have helped shape the current portfolio. This is to be expected, as the process of change is constant and thus our work is ongoing, rather than concluding neatly in December each year.

The topics included in this year's agenda share certain characteristics. They focus on sizable industries or regions and thus where the rewards for investment insight might be meaningful; on areas where technology is unlocking new

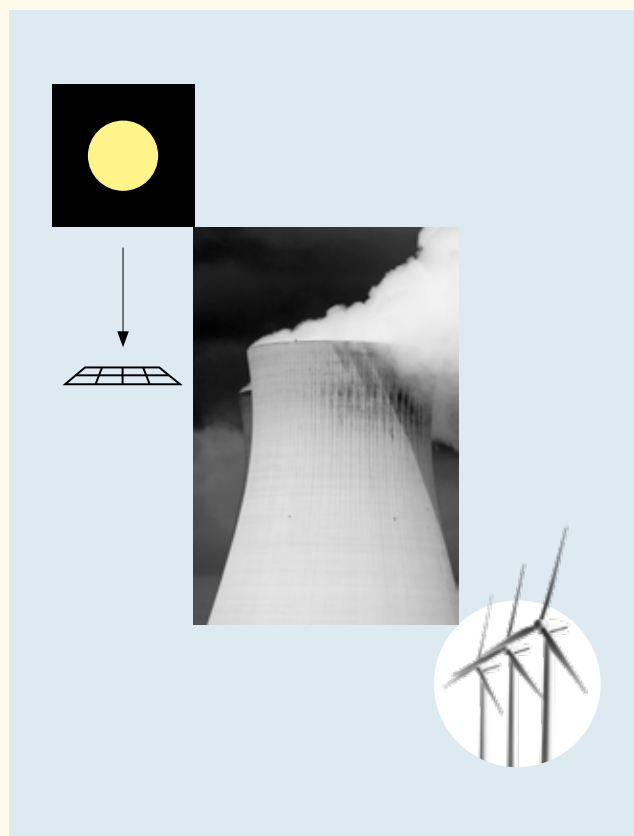
possibilities or enabling new business models; and where significant inefficiencies or externalities currently exist, creating the impetus for change. These topics are not about identifying the next big 'theme' in equity markets, but are about trying to help us look beyond the obvious beneficiaries, towards the second and third-order effects where the potential for valuable insight is greatest.

It is vital in times such as these, when the market narrative is dominated by worries about the near-term impacts of inflation or supply chain issues, that we focus our attention on the topics which we think will help enable the success of companies over much more meaningful time periods. This Research Agenda is an important aid in that process.

THE GREAT ENERGY TRANSITION

Given the existential imperatives involved in addressing the climate crisis, it is perhaps understandable that the focus is often on the challenges involved. Progress on the greening of the global economy appears slow, arguments about how to share the ‘burden’ of decarbonisation between nations are fraught, and headlines covering natural disasters grab our attention all too frequently. But this focus risks under-appreciating the progress that is being made. Last year, for the first time, over half of new renewable energy projects were cheaper than the cheapest fossil fuel alternatives. For example, since 2009, the cost of producing solar electricity has fallen by almost 90 per cent and now represents one of the cheapest forms of energy ever produced. The transition to a world of clean, abundant, and cheap energy may be about to inflect. The implications are likely to be profound and the resulting investment opportunities are likely to be meaningful and varied.

So, what if we refocus our attention on the opportunities that this transition may unlock? There are two aspects which we would like to explore further. Firstly, we would like to deepen our understanding of the likely trajectory of further cost declines in renewable energy generation. If the rate of recent progress is maintained, then the second-order impacts of the powerful deflationary impact of these falling costs are likely to be felt right across our economies. We will look for opportunities where these impacts may be felt most keenly.



Secondly, the speed of this transition may be limited more by the scale of the capital required to upgrade our energy infrastructure, as much as by advances in the relevant technology and processes. Electricity grids will need substantial upgrades after years of being allowed to fall into disrepair; manufacturing supply chains will take time to scale up production; and storage infrastructure built on green hydrogen and batteries will need to be created. However, with plummeting costs, the immediate economic incentives will align with the environmental allowing the removal of subsidies and the private sector to deploy huge amounts of capital without government support. We will look for potential beneficiaries of the monumental capital expenditure programme which is likely to be unleashed. This may lead us to examine the potential for certain industrial companies where the opportunities for an acceleration in growth may be deeply under-appreciated by the market. We must also remain open to the possibility that today’s incumbents may represent an important part of tomorrow’s solution.

INNOVATION IN EMERGING MARKETS

2021 was a year in which the pace, scale and scope of regulatory change in China unsettled investors and led to sharp downturns in the share prices of companies perceived to be in the firing line. The question from here is; to what extent does this mark a permanent shift in attitudes from a freewheeling approach to growth and innovation within China, to one where companies are required to give more thought to the social consequences of their business models? When investing in China, alignment with the government has always been important, however, the potential for a step-change in state involvement has been demonstrated.

There are numerous crosscurrents at work here, including geopolitical competition, a desire from the Chinese government to encourage investment and innovation in strategic areas, as well as the need to address environmental pollution, high levels of inequality and an ageing demographic. Untangling the differing impact of these state imperatives on the companies in the portfolio will be a key focus over the coming year.

As always, we must not allow the recent difficulties some of our Chinese holdings have faced to blind us to the long-term opportunities. We must consider that rather than squashing free enterprise under the dead hand of the state, the government may simply be setting more explicit guardrails to future growth. To quote President Xi: “To better play the government’s role is not to play more but to manage the affairs the market could not deal with on the premise of allowing the market to play the decisive role”.

China is, on many measures, already the world’s largest economy offering a domestic market unparalleled in scale. The last decade has seen the emergence of some of the most innovative business models in the world and certain companies in the portfolio, such as Li Auto, the electric vehicle manufacturer, already appear very well aligned with government priorities. Our focus will be on trying to identify more such companies which not only benefit society, but also have the potential to scale and achieve attractive levels of profitability.

Looking beyond China, the quickening pace of innovation across several emerging markets may represent a rich vein of underappreciated opportunities. We purchased SEA Ltd, the South East Asian gaming and ecommerce company for the portfolio in February 2020 and more recently, we have taken a holding in the South Korean ecommerce company Coupang. We will continue to search for emerging winners. India may offer a particularly rich hunting ground. Historically, incumbents in a range of industries have enjoyed privileged and protected positions, stifling innovation. But this is changing. Between 2015 and 2020, India saw 34 ‘unicorns’¹ emerge. In 2021 alone, there were 44. Much of this is thanks to portfolio holding Reliance Industries, whose investment in their Jio telecoms network has enabled an exponential rise in data consumption. Reliance is responsible for laying the infrastructure upon which a new breed of entrepreneurial companies is building the India of the future.

1. A unicorn is a term used in the venture capital industry to describe a privately held start-up company with a value of over US\$1bn.



DECENTRALISING THE INTERNET

The term ‘web 3.0’ is a broad and somewhat nebulous concept promising a more decentralised internet and encompassing features such as blockchains, cryptocurrencies and non-fungible tokens². If a feature of the current internet landscape (web 2.0) is the aggregation of data and content by a small group of gatekeepers, advocates of web 3.0 see the benefits of a more decentralised future as greater privacy and security as well as the empowerment of creators. This broad waterfront of change is likely to offer fertile ground for innovation. As such, we should be curious and open-minded. There is often an anti-institutional sentiment to discussions of the future benefits of web 3.0, but this may be less interesting than what new things decentralisation might enable. To what purpose might these tools be applied?

These questions will require us to think about the ‘why’ and the ‘when’ of adoption of these new technologies and use cases, not just the ‘how’. For instance, Mark

Zuckerberg, CEO of Meta (previously Facebook), has outlined the centrality of the metaverse (a related concept to web 3.0) to his company’s future direction of travel. However, he has also stated that he does not expect to see significant returns from the multi-billion-dollar investment in this area until the 2030s. Which areas might be more immediately impacted?

Payments may be one possibility. It is a huge and heavily regulated area, central to our economy and, as such, has been slow to change. We may need to broaden our thinking here. Web 3.0 may be more about money (digital native currency) than payment specifically. Are there other areas of finance where middlemen could be bypassed, such as saving, investments, insurance or credit ratings? We have started to dip a toe in the water with research on Block, and we will continue this work while cognisant that the size and complexity of this topic means that we need to tread carefully.

2. A blockchain is a digital ledger of transactions that is recorded and distributed across a network of computer systems which form the blockchain rather than by a centralised authority. This system of recording information makes it difficult or impossible to change, hack, or cheat the system as the record is maintained across the entire network.

A cryptocurrency is a digital currency in which transactions are verified and records maintained on a blockchain.

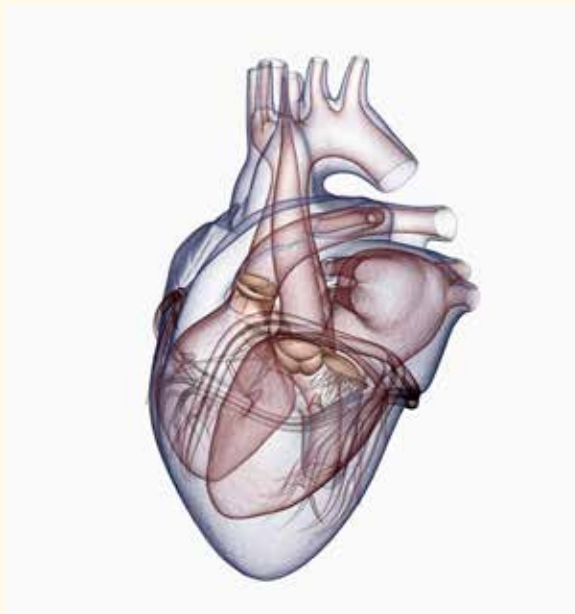
A non-fungible token, or NFT, is a digital asset which sits on a blockchain and carries a unique identification code which enables it to be bought and sold.

BIOLOGY AS A SERVICE

Why have no healthcare companies managed to achieve the milestone of \$1tn in market-capitalisation? The healthcare sector is vast, rapidly growing, and hugely inefficient, which should provide the right ingredients for the emergence of outlier successes. However, to date, pharmaceutical companies have been unable to achieve the economies of scale from which the giants of the consumer internet have benefitted. In contrast to the network effects and advantages in data collection that deepen with scale for the likes of Alphabet, success in drug discovery and development has been uncorrelated. In the pharmaceutical industry, initial success has not revealed anything about the probability of further successes. While software and internet companies benefit from increasing returns to scale, drug development has suffered from diminishing returns.

But software is increasingly making its presence felt in biology. Thanks to the work of companies like portfolio holding Illumina, our understanding of the genetic building blocks of life is deepening at an incredible

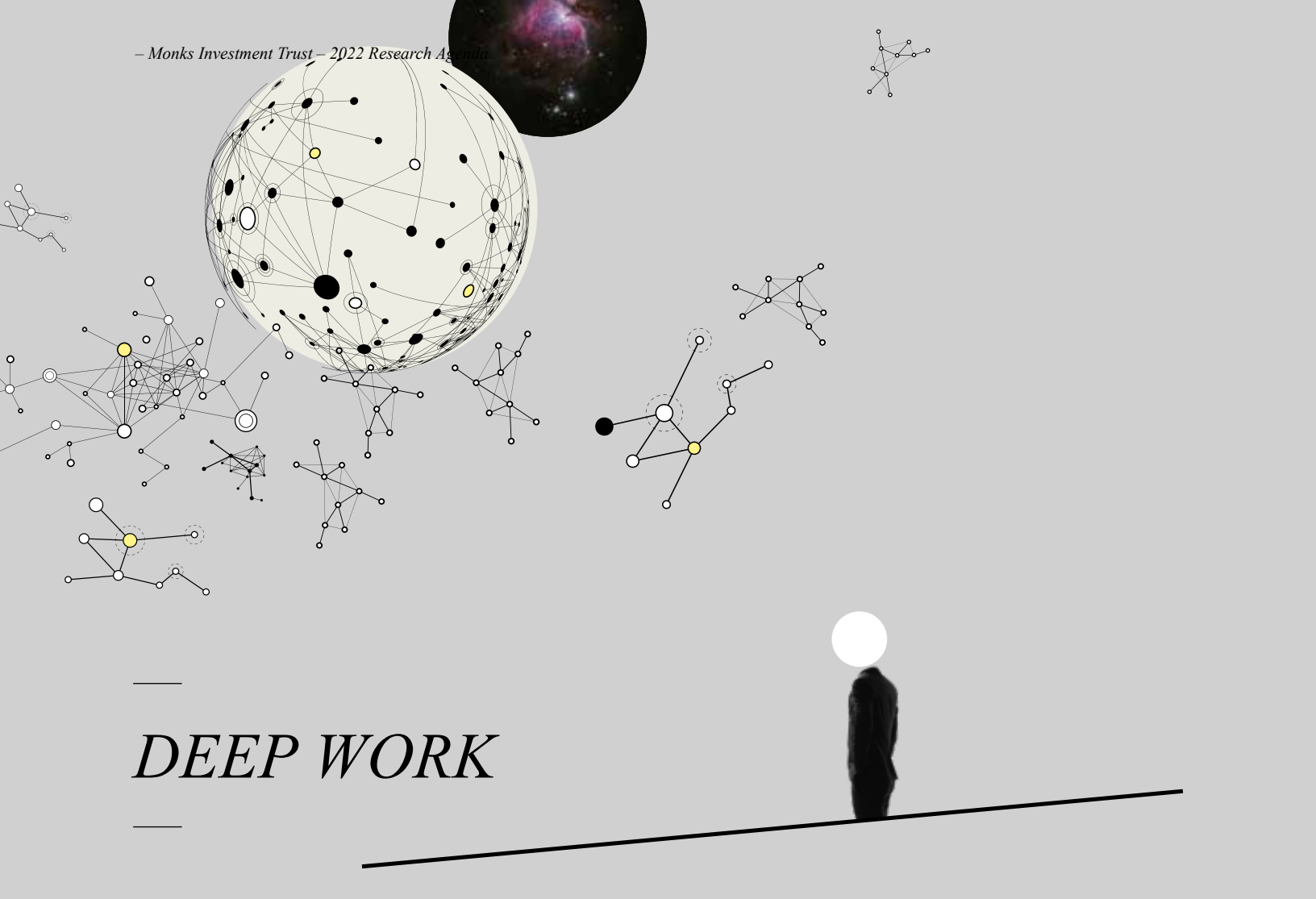
rate, unlocking new possibilities. In software, we are used to coding in ones and zeros, but we are now starting to code in the building blocks of life, in the four chemical letters of our DNA. The brakes to progress



in this area may well have fallen significantly because of the Covid-19 pandemic. We recently met with Illumina CEO Francis deSouza, who shared his view that the pandemic has accelerated the development of genomics by at least five years. Now that hundreds of millions of people

have received mRNA vaccines, some of the biggest regulatory bars have been crossed, making future approvals meaningfully easier. We recently took an initial holding for our clients in Certara, the maker of biosimulation software. We believe that the tools (such as those offered by Certara) are in the very early stages of much broader adoption within the biotech and pharmaceutical industries. We will continue to seek further opportunities at the intersection of data, information technology and biology.

We are also intrigued by the increased outsourcing of various parts of the value chain by traditional pharmaceutical companies. Businesses such as WuXi Biologics and Asymchem claim to offer cheaper and better manufacturing and research and development solutions versus in-house capabilities. Our long history as investors in TSMC, the semiconductor manufacturing powerhouse, suggests that being the scale player in a capital-intensive and complex industry can result in a competitive position that is durable and valuable.



DEEP WORK

Thus far, we have highlighted specific areas of significant change where we believe we may profitably focus our research efforts over the coming years. However, there may also be value to be unlocked by re-examining the way that we structure our time.

If our core task can be defined as the generation of investment insights for the benefit of our clients, it is remarkable how many distractions there are in the average day which attempt to steal time away from this central aim. The hybrid working environments of recent years have offered valuable benefits in increased flexibility. However, the ‘always on’ nature of this type of work risks exacerbating the problem of ceaseless interruptions. To try and protect our time from this modern blight, we plan

to push harder in pursuing periods of ‘deep work’, blocks of time free from distraction and noise to focus on our core task.

Cal Newport, a professor at Georgetown University, has written a book also entitled *Deep Work*. In the book, he discusses the importance of this topic and how difficult it is to achieve periods of focus in the modern working environment. The book details the toxic impact that the constant stream of alerts and notifications can have on productivity. Even if ignored, the mere presence of the unopened envelope symbol appearing in your icons can be enough to derail focus. Further, we are living in an age of chronic information overload. Headlines are specifically designed to lure us in and grab our attention.

The desire to stay connected and be informed is deep-rooted in the human psyche, but perhaps counter-intuitively, these can be highly detrimental to the task of generating insight.

The point here is one of balance. Our aim is not to seclude ourselves from our clients and colleagues – a crucial part of generating insight is the discussions and the opportunity to hear different perspectives. The point of periods of deep work is to be able to bring something new to these discussions. For each of us to have developed our insights rather than simply sharing the information we have gathered. We will look to marry the benefits of focused thought enabled by deep work with collaboration and the benefits of serendipitous collisions, particularly as we return to the office.

CONCLUSION

Our process is designed to identify businesses that possess the right elements of vision, ambition, and the ability to execute on these, which will enable them to grow at attractive rates for long periods. This Research Agenda aims to help us focus on areas where the potential rewards for companies with these qualities are greatest. To explore areas where the pace of change is quickening and where the opportunities for successful businesses to create or capture significant value may be expanding or poorly understood. The importance of this endeavour can be forgotten during those periods, such as recently, when macro takes hold of the markets. This Research Agenda is our attempt to ensure we stay focused on the topics that are likely to matter for investment returns over the next decade.

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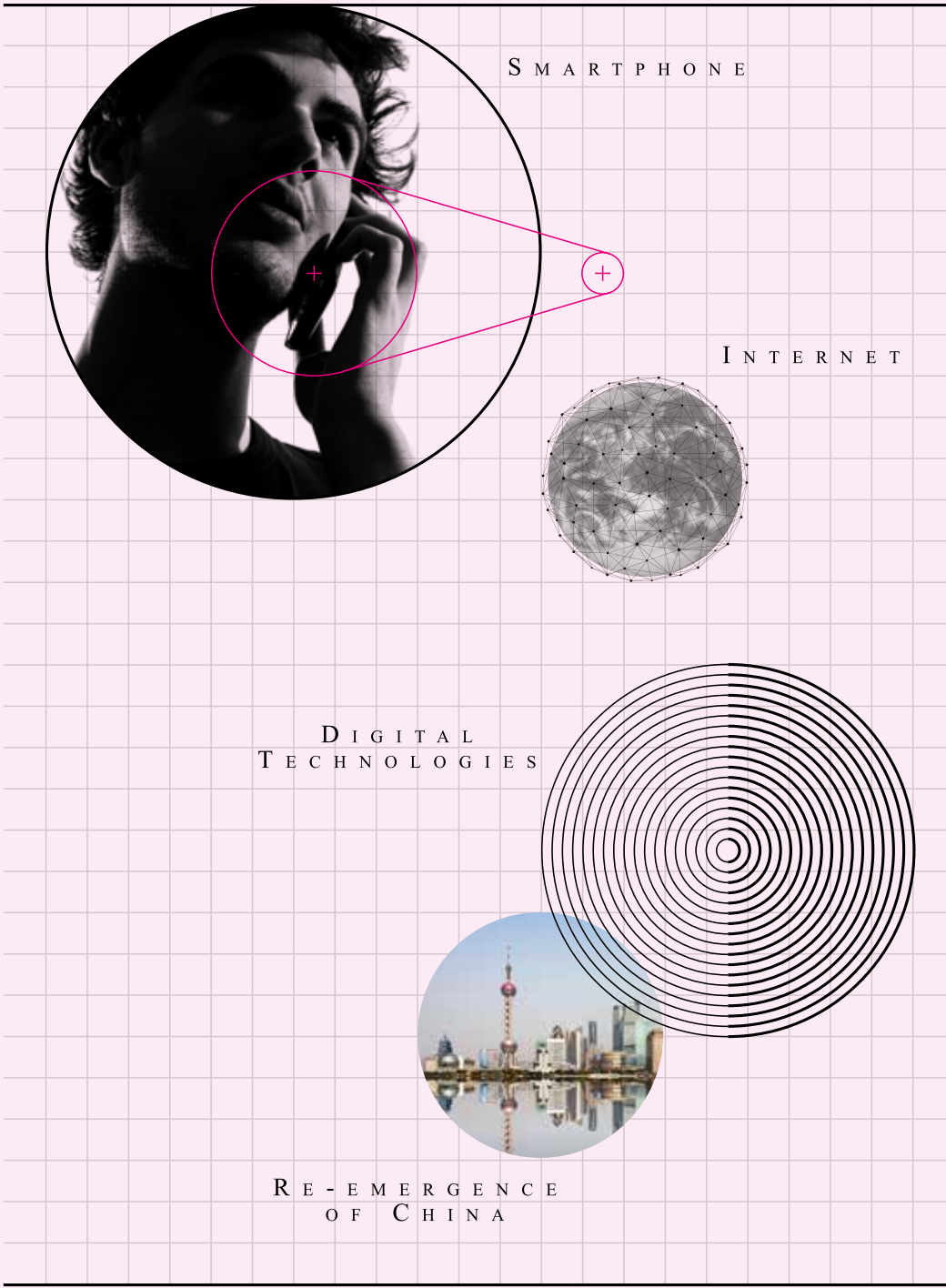
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**Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com**