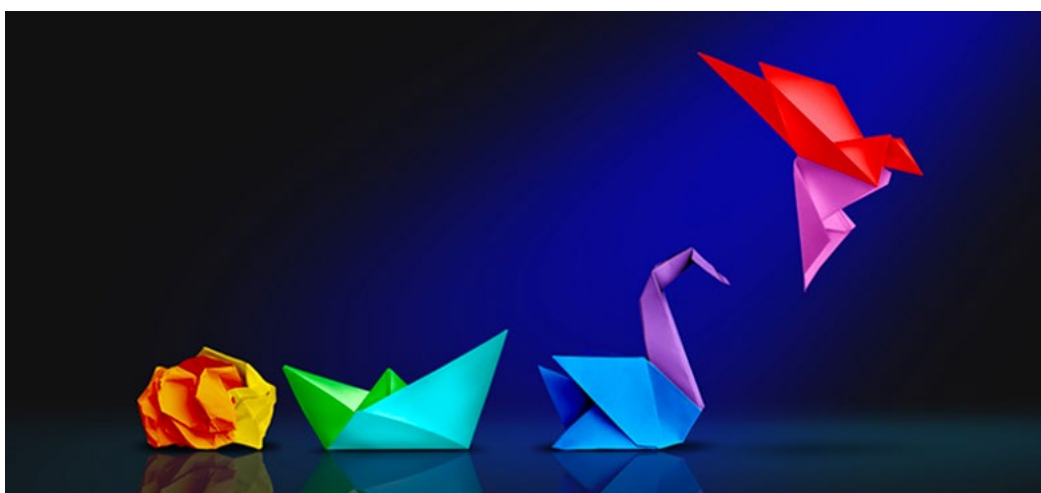


Investing in the age of disruption

Great empires have risen and fallen throughout history. So have great companies. As he prepares to explore life in the ancient Roman cities of Pompeii and Herculaneum, Tony Conway explains how today's unprecedented levels of churn and change can shape investment thinking.



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By the time you read this, believe it or not, I shall be traipsing around Pompeii. To anyone who instantly recalls a certain 1970s sitcom starring Frankie Howerd: titter ye not. No togas will be involved.

It will, in fact, be a rather high-brow affair. Our party will include a friend who is a professor of ancient history, so I expect to conclude the trip with both a smartphone replete with fantastic photos and a mind suitably enriched by on-the-ground insights.

The principal attraction of Pompeii lies, of course, in its ability to provide a unique snapshot of everyday life in the days of the Roman Empire. For this we can thank Mount Vesuvius, whose eruption in 79 AD smothered the city in a blanket of volcanic ash that preserved it for centuries.

The Empire was in the ascendancy at the time of the disaster, even having rebuilt itself after the earthquakes of 62 AD. Broadly speaking, Rome reigned supreme for another 400 years. Eventually, though, it fell, leaving other contenders to fill the resultant void. Its levels of wealth, the quality of its art and the sophistication of its economy and justice system took more than a thousand years to reappear in Renaissance Europe (and some might say some countries are still waiting).

I feel there may be a couple of lessons here for present-day investors. The first – without in any way wishing to trivialise Pompeii's grim fate – is that stuff happens. The second is that even the most successful entities and undertakings very rarely last forever.

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We might usefully conflate these considerations in the context of a world almost relentlessly buffeted by “the gale of creative destruction” (to employ Joseph Schumpeter’s celebrated phrase). Doing so gives us an investment idiom along the lines of the following:

An organisation will rise or fall depending on its response to disruption.

Albeit with shameless recourse to Google Translate, it seems apt to render this maxim in Latin. Thus, we get the below:

Organizatio aut ascendet aut cadet pro modo quo perturbationi respondet.

This is slightly less catchy than I had hoped, but never mind. The aforementioned prof has checked it and given his approval. Whatever the language, the fact remains that today – surely more so than ever before – companies that are unable or unwilling to embrace change are highly unlikely to represent attractive investment prospects over the long term.

As with the Roman Empire, sheer magnitude may not be sufficient to save those that fail to adapt. The classic case of reasonably recent vintage – and one much loved by business schools – is Kodak, which engineered its own demise by inventing the digital camera and then declining to commercialise it.

Similarly, Blockbuster negotiated the transition from VHS to DVD but was then late to acknowledge the seismic shift towards on-demand video. Both Nokia and BlackBerry have struggled to regain relevance ever since the iPhone came along and condemned their offerings to near-obsolence virtually overnight.

Even genuine titans that were once reckoned all but indestructible have contrived to lose their way in cataclysmic fashion. None fits the bill more spectacularly than General Motors.

In the 1950s, in *The Affluent Society*, esteemed economist JK Galbraith wrote that GM showed “marked indications of immortality”. In part due to poorly conceived products – check out the ghastly Pontiac Aztek by way of jaw-dropping illustration – the company was forced to file for bankruptcy in 2009.

So, what about those businesses that *do* respond well to disruption? Just as yesterday’s winners can become today’s losers, so yesterday’s losers can become today’s winners.

Take Rolls-Royce, which found itself in dire straits amid the ravages of the COVID-19 pandemic. In 2023, when he was named CEO, Tufan Erginbilgic memorably described the struggling aerospace giant as “a burning platform”.

Tough measures were soon implemented. Erginbilgic and his executive team did what their predecessors could not or would not do. It was unpleasant but necessary. The outcome: Rolls-Royce was back on track within a year.

Delving deeper into the archives, we can find even more striking instances of successful acclimatisation. Even within the lofty ranks of the FTSE 100, there are many businesses whose operations today are vastly removed from their operations in the past.

Smiths Group, which once made wristwatches for the Admiralty, immediately springs to mind (no pun intended). Fast-forward 175 years or so and we discover that what was once a jewellery shop is now an industrial technology multinational whose products include security equipment, sensors and electronic components.

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None of this is to suggest an effective investment strategy should revolve around frantically leaping from one apparently promising company to the next in an endless search for the Next Big Thing. Nor is it to imply we should back as many businesses as we can in the hope that a handful will somehow stay the course. The racetrack is full of punters standing at the rail, waiting for their “each-way” bets to come good.

The point is that one should guard against complacency. Investors must always strive for informed decisions and prudent choices, but they must also recognise those decisions and choices are unlikely to endure in perpetuity in an age defined by unprecedented churn and rapid-fire advances.

This is why, as investment managers, we continue to make strategic and tactical adjustments to portfolios. It is why we continue to closely monitor existing holdings and would-be opportunities alike. And it is why we continue to explore fast-emerging trends, far-reaching themes and their potential impacts on sectors, industries and individual companies.

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