INTERNATIONAL GROWTH – WHAT PICASSO CAN TEACH US ABOUT INVESTING

Investment Specialist Christel Brodie speaks to Tom Coutts, Investment Manager on Baillie Gifford's International Growth Strategy, about his recent thought piece 'What Picasso can teach us about investing'. Coutts discusses how the process of, and reactions to, change in the art world can be closely compared to how we as investors look at the world today and what it could be in the future.

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Christel Brodie (CB): Hello everyone. Welcome to this short video. I'm Christel Brodie. I'm an investment specialist in the International Growth Strategy. And I'm here today with Tom Coutts, a partner of the firm and the chair of our decision-making investment group for International Growth. So today, we are here to discuss Tom's white paper, which is called *What Picasso Can Teach Us About Investing*. So, Tom, the title of your paper will have raised questions in many people's minds, as it did in mine. What does Picasso have to do with investing?

Tom Coutts (TC): Yes, it's a good question, Christel, because I think not much on the face of it is the answer. I suppose as a long-term growth investor, I'm fascinated by the process of change, how change happens and how we react to it. And one of the periods of great change that interests me is modernism, late 19th, early 20th century. And there's a terrific book called *The Shock of the New,* which is a great title, I think, by Robert Hughes. And he talks about the way that artists at the time, in the early 20th century, responded to huge changes in society by challenging the foundational assumptions of the art world.

So to get to the point of your question, Picasso or the cubists stopped portraying the world in the way, with the old single-point perspective that had existed since the 15th century, and started to imagine the world and to depict it from multiple perspectives at the same time. And now to anyone who knows anything about art, that's an obvious statement. But to me, and I don't know much about art, I thought it was a brilliant metaphor for what, as investors, we need to do, how we need to change our ways of thinking in response to the changing societal expectations of our role.

CB: It is indeed a very exciting metaphor. But why do you think it is important to look at these multiple perspectives when assessing investment opportunities as opposed to just looking at maybe narrow financial parameters?

TC: I think the idea that you can take a one-point perspective of a company and distil it down to a share price is the equivalent of pre-cubist painting to me. You're only viewing things from one angle. You're massively simplifying it and reducing things. And in the world today we live in, where the problems we face are more complex and society's expectations of the financial industry are rightly changing, I think one needs to look at things from multiple perspectives at the same time. And doing that, it's like looking at a Picasso painting for the first time. It's deeply confusing.

But to get those perspectives, you need to move outside the financial world and to seek insight from experts, from thinkers, academics like Mariana Mazzucato or Brian Arthur or Branko Milanović, all of whom we admire greatly. And as an analyst, as an investor, you need to, as well as just think about the stock price, the share price, you need to consider other factors, the environmental impact of a company, the effect it has on society and so on.

This is a more complex task, but I think it's also a richer and deeper one and it's one that we need to get used to doing because these factors matter. Now, they don't just matter because they're nice to have on the side. They matter because they're fundamental contributors to a company's future growth prospects, and therefore to its shareholder value ultimately.

But you can't focus on shareholder value narrowly, on the single one-point perspective narrowly to get that. You need, I think, to take into account multiple perspectives and think more broadly about the prospects of any individual business. Now, you've done a lot of thinking about this and some writing about this in our recent quarterly letter.

CB: Yes, I have actually. In that G&S letter, I just basically mention how we incorporate sustainability into our investment process and the fact that we look at a company's sustainability via the lens of its social licence to operate, and the fact that when we assess investment opportunities, three points are really important to us, which are additionality, materiality and ownership.

So additionality is basically we ask ourselves, what does this company add to the world? For instance, ASML, the manufacturer of lithography machines. Without this company, we wouldn't have had such an acceleration in digitisation during the current pandemic and it would have been a much worse experience than what we've just been through.

In terms of materiality, that just means that we are looking at questions, sustainability questions. They are the most important to the company we are analysing. So, for instance, when we're looking at the payment companies, we look at the regulatory environment. We don't necessarily go through a generic list of ESG questions just for the sake of it. We just pinpoint the most important ones, important points.

And then the third point would be ownership and the impact ownership has got on companies. How do we add value to the companies by maybe providing primary capital in order to unleash growth opportunities? So yes, it is a different perspective, isn't it, we are looking at in that way. I guess a good other example. Why don't we now go maybe…Where do you think the greatest change is and the greatest growth opportunities are over the next decade?

TC: The way I think about it, there are really two broad types of change. There's the first. The first type is the change you just don't see coming. It comes out of nowhere, discontinuous shifts in the world. And the second is the sort of change that just accumulates gradually with tiny developments every day compounding, one on top of the other, until you look around and without you really having noticed it, things just look very different.

And Covid, I think, the last 15, 18 months, is a great example of both sorts of change. It came out of nowhere. Something like this didn't feature as a risk in mainstream discourse, for all that some experts had been aware of it and talked about the possibility. So, rapid, shocking, discontinuous change. And yet 15 months after our government started to take it seriously, I'm double vaccinated against it.

And that, when you think about it, is, I feel, almost miraculous. It's an example of the sort of compounding change that we've seen in medicine over the last decades, what Hans Rosling used to call the secret silent miracle of human progress. And I think there are three really important aspects of our world where that compounding change is happening already, and where it will lead to really significant societal change and to really big investment opportunities over the coming decade.

The first is this Covid vaccine example, the confluence of technology and healthcare, where our understanding of the human genome will lead to transformational improvements in disease treatment and prevention. The second big area, I think, is in energy, where we're now well underway in the fourth great energy transition, driven by the learning effects in solar, in wind and in energy storage and batteries. And this transition needs to happen, of course, for us to properly address the climate crisis. And the third is the relentless increase in computing power that Moore's Law delivers us. And in some ways, that's the most difficult in investment terms. The CEO of ASML said to us a few months ago that he has no clue what the next killer app will be. And if he doesn't, then what hope do the rest of us have?

So each of these three, I think, has real profound societal implications and also offers fantastic investment opportunities. And we'll get some of them wrong. We have to get some of them wrong because if we don't, we're not taking enough risk on behalf of our clients, frankly. But the ones that we get right should more than outweigh those and should lead, I think, to terrific investment opportunities over the coming decade.

CB: Let's change angle a little bit. The last conference we held for our North American clients was called Getting Out More. And as you wrote in your paper, that has seemed a pretty ironic title really over the last 15 months or so. Can you tell us more about how has this pandemic affected your ability to engage with managements of companies?

TC: As we know, we've all got very used to Zoom and Teams and so on. Our, in many ways, creativeness is far better than it might've been even three years ago. It's been easy, pretty easy to have contact with colleagues and clients and companies, as you talked about, and management teams have been very keen to engage with us. But as we all know, it's not the same talking through a screen. It's very functional. It's difficult to get the real depth and breadth.

And for us, we're trying to build relationships with management teams over multiple years and it's often the side conversations you get on the way out of a meeting, waiting for the elevator, that sort of thing, where you're a bit less constrained by the formalities of a meeting and you get an insight into the company's culture or into some distant possibility five or ten years into the future. And those are the sorts of things that really interest us. So, I would say it's been fine. It's been better than it might well have been. But I'm personally very keen to get out and do a few more select company meetings, either later this year or certainly next year.

CB: So you're not a big fan of Herb Simon, and his theory on the San Diego Library, are you?

TC: So Herb Simon, computer scientist, had this theory that anything that a normal American adult can learn on an overseas trip of less than one year's duration, they can learn more quickly and more cheaply by visiting the San Diego Public Library, which I thought was a great line and a great insight in many ways. And I think there's real truth in it. You can learn so much from reading books and from learning from academics, and you don't need to leave your desk to do that. But I also think you learn a huge amount from actually getting out into the world and meeting people, meeting companies, meeting brilliant thinkers. So we're very keen to get out and do that again.

CB: Absolutely. Absolutely. Tom, thank you so much for discussing your paper with us today. I hope you can get out more in the not so distant future to meet with inspiring management of companies, with academics and economists too so that would allow you to collect these multiple perspectives that are so crucial when assessing these exceptional growth companies. Thank you all for listening. Bye now.

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