



September 2017

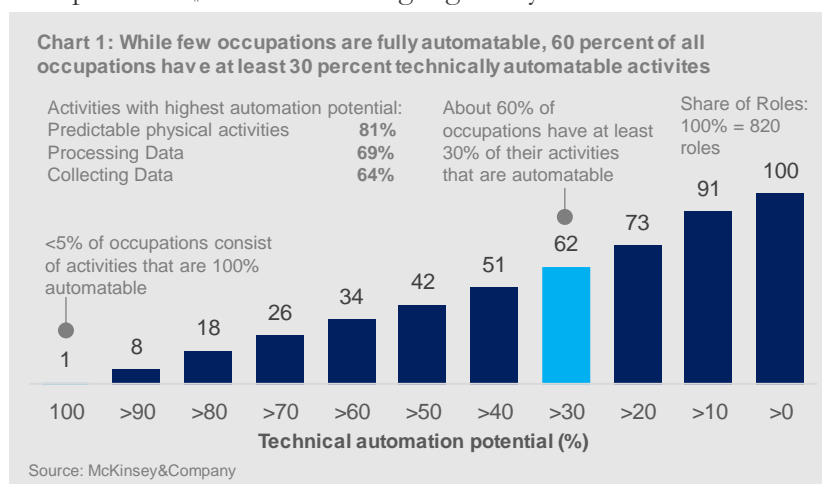
NAVIGATING DISRUPTION

The world is changing fast. The threat of disruption is real and growing with the potential for catastrophic outcomes for companies and industries across the globe. Once formidable barriers to entry are breaking down under the onslaught of new, fast-moving competitors empowered by the changing dynamics of the mobile internet age. History would suggest that we should not underestimate the scale of change that is happening and is filled with cautionary examples of those who did. As Bill Gates has said, “Most people overestimate what they can do in one year and underestimate what they can do in ten years.”

At Altrinsic, we expect the pace of change to accelerate as new technologies like artificial intelligence, machine learning, and automation begin to take hold and reshape companies, industries, and politics. Technological advances will impact industries once considered “safe” as the forces of creative evolution continue.

McKinsey projects that 60% of occupations have at least 30% of tasks that can be automated as illustrated in Chart 1.¹ This corresponds to \$16 trillion of wages globally and more than 1 billion

jobs worldwide that are at risk of automation as illustrated in charts 2 and 3 on the next page.² The impact on human resources may not be as severe as we expect new industries, companies, and jobs to be created over time as these technologies take hold just like in the first industrial and the internet revolutions. What will be destroyed is always much easier to see than what is yet to be created.



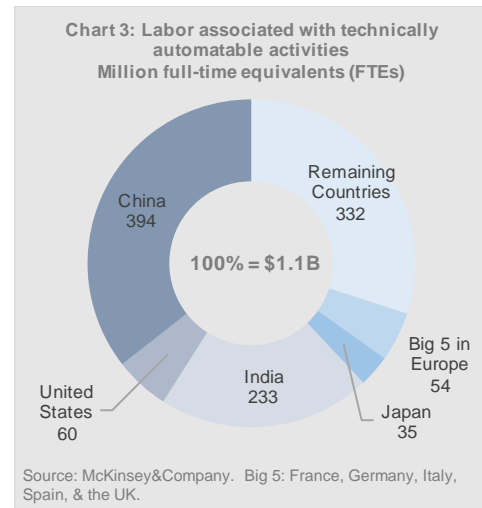
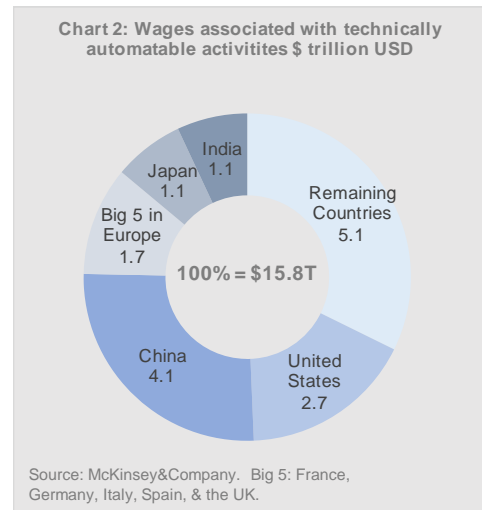
How do we deal with this accelerated pace of change? As investors, we have two goals: try to invest in the disruptors and try to avoid those companies that are being disrupted. Both of these strategies share one critical common element – significant depth of knowledge and engagement across the industry food chain. Without this, investors have little hope of navigating the fast-paced investment landscape going forward.

At Altrinsic, we take a long-term, absolute value focus and we approach investments as if we were going to buy the businesses outright with our own capital. We believe this gives us an advantage in

this new, high disruption world as we can evaluate opportunities without adhering to the constraints of traditional value measures like low price-to-earnings and low price-to-book ratios. This is especially important now, as many companies that screen “cheap” based on traditional measures are facing significant structural risks going forward. Alternatively, many companies that might look “expensive” at first glance may actually offer significant value.

For example, we have a keen interest in the intersection between healthcare and technology, which is changing rapidly, driven by an explosion of new data and machine learning. Professions once considered safe from disruption, like radiologists, may face risks from artificial intelligence machines in the future (it turns out that Deep Learning, the Artificial Intelligence method that Google used to identify cats in YouTube videos, is also very good at identifying skin cancers).³ At the same time, pharmaceutical and biotech companies may benefit from a step-change in research and development productivity as the world moves closer to personalized medicine and the research process becomes shorter and less risky. Next year’s price-to-earnings ratio tells you nothing about this.

During these periods of extreme change, we rely on our investment process to help us confidently navigate the shifting landscape. By staying true to our philosophy, we believe we are well positioned to take advantage of the coming opportunities. These are fascinating times.



Sources:

¹⁻² McKinsey&Company January 2017 “A future that works: Automation, Employment, and Productivity.”

³ <http://news.stanford.edu/2017/01/25/artificial-intelligence-used-identify-skin-cancer/>

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