

Smaller Cap Moats

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I'm extremely excited that because inefficiencies breed opportunities, and if we fully understand the competitive moats of the companies that we study, we can uncover many opportunities to deliver alpha for our clients.

A competitive moat is a company's ability to protect its long term profits and market share. We actually borrow the idea from the surroundings of a castle that protect it; for a company, the parallel also exists. We want a company to have this kind of gap between itself and its competitors.

We believe that a competitive moat is especially important when we do our investments in smaller cap companies. The internet and related digital revolution give smaller companies a unique advantage because they are actually starting at the same line. So the smaller company, by being able to act more quickly and more nimbly, can create something that exactly suits its customers.

For example, a company in the HR space that utilizes cloud computing to really streamline HR records keeping. So once these smaller companies take a foothold starting with payroll, it becomes really sticky, and from there they expand into adjacent areas like

onboarding and recruiting. As a result, their customers make their talent force even more productive.

There is an education company that really utilizes digital technology to compile one of the largest databases. And this company has been able to digitize more than 20 million solutions to make it searchable. This company, as a result, has been creating a moat, not only in the content space, but also in delivery and it doesn't need any intermediaries; it controls the whole value chain.

Discovering and understanding competitive moats is really the majority of our work. We not only need to understand the companies themselves, but also understand their ecosystem, their supplier base, their customers, their competitors, why these competitive moats are sustainable into the future. Hopefully the ideal situation would be that these competitive moats are actually widening.

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