The Disruptive Strategist

Marketing material for professional, institutional and accredited investors

Executive Summary

In our Q3 2021 newsletter, members of GAM Investments' Global Equities team cover topics including China, cybersecurity, crypto markets and payments.

Wendy Chen examines the tightening regulatory cycle in China and the appeal of policy tailwind sectors viewed as long-term winners by authorities.

Pieran Maru discusses new opportunities in the area of cybersecurity as firms move to minimise reputational risk from ransom attacks.

Kevin Kruczynski looks at the recent wave of enthusiasm surrounding buy now, pay later business models and their appeal to millennial and Gen-Z consumers.

David Goodman comments on the growing appeal of digital currencies among central banks and the underlying mega-trend of money becoming digitised.

Introduction

By Mark Hawtin

Inflation is not transitory it would seem. All over the world supply chain pressures are increasing the likelihood of a higher and longer-lasting spike in inflation. Stagflation has become a haunting mantra for many, and this led to the worst month for the S&P 500 since the pandemic induced selloff in March 2020. The S&P 500 fell 4.8% in September as bond yields spiked and fear started to grip an otherwise indifferent investor mindset. Entering Q3, we were concerned about a peak in the rate of change for GDP growth, earnings revisions and money printing. The inflationary spectre has added to this uncertainty and created a volatile period for sub-sectors of the stock market.

It is rather poetic that, at a time when the world witnesses the lengthy outage at Facebook, it is in fact the physical world that is suffering the most from 'centralisation'. Much has been made of the benefits of just-in-time manufacturing, sleek and efficient supply chains and globalisation. Suddenly, this apparent model world has swiftly fallen apart as one falling domino leads to a cascade of bottleneck issues. Human nature creeps into exacerbate the problems – look at the UK petrol shortage, for example. A shortage of heavy goods vehicle (HGV) drivers led to a small number of petrol stations having to close temporarily. The announcement of this fact led to a run on petrol stations by panicking consumers determined to fill their tanks to the brim, which in turn led to fuel shortages and empty forecourts. This small example of a supply chain issue highlights the incredibly fine-tuned supply chain world in which we live today. Incidentally, it has also led to a sharp rise in fuel prices – how 'transitory' will that be?

The supply chain shock that is impacting many sectors globally will undoubtably deliver raised uncertainty and inflationary pressures. Demand post-Covid-19 is being met with tight supply of goods and labour. We are witnessing the perfect storm for inflation – there is too much money (money printing to excess) chasing too few goods. Covid-19 related disruption that has limited supply chains and the mobility of labour is serving to create an unpalatable

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backdrop, at least in the short term. Turning again to the UK for another micro example – pre-Covid-19 there were 20,000 black cab drivers; that number has fallen to 13,500 as many drivers have retired or just given up. The result, taxi costs have risen sharply, and that is if you can even secure a ride on a busy evening out. On a more global scale, the president of the World Bank, David Malpass, announced on 13 October that work done by his team suggested that 8.5% of shipping containers were stuck waiting to be unloaded at ports. 90% of the world's goods are transported by sea so this has very significant implications for the just-in-time world in which we live. We believe this impact is going to be felt everywhere from enterprise to the piles of gifts underneath Christmas Trees.

It is no surprise that markets were in a very indecisive phase during Q3, with the latter part of the quarter particularly in flux. Transportation delays and cost pressures have already led to a series of profit warnings from companies more acutely exposed to the issues. On 22 September, FedEx warned of rising labour and transport costs which led to its shares falling 8%; online retailers have been impacted by the very same actors leading to a slew of warnings – ASOS, AO World, Boohoo all warned in the UK over the past few weeks, leading to sharp share price falls. We would expect to see this trend across most developed geographies as we enter the earnings season. Semiconductor shortages have been well documented; these will likely lead to downgrades across many end-user markets. The last week of the quarter saw rumours of a 10% cut in quarterly iPhone deliveries – earnings season will not be straightforward, and we expect to see mixed results.

Aside from macro issues, perhaps the largest story of the quarter was the severe regulatory changes made in China targeting a number of industries and consumer online platforms. The KraneShares CSI China Internet (KWEB) ETF has fallen by circa 50% from its year highs as investors ran for cover fearing the next announcement in a wide-ranging crackdown. We have made this a key area of focus in this issue of The Disruptive Strategist with a separate detailed write-up below from Wendy Chen who has joined the team after working at one of the Tencent family offices, having previously covered the Chinese market for Goldman Sachs. Wendy brings a wealth of knowledge to the team and she has recently spent three weeks visiting companies in China raising awareness on individual names, but also getting first-hand knowledge of the regulatory issues, concerns and potential outcomes.

China - an analysis of the increasingly complex investing landscape

By Wendy Chen

China dominated headlines throughout Q3 2021, delivering extensive stock market volatility. Under the latest regulatory tightening cycle, the MSCI China Index declined by 18% during Q3 and the KraneShares CSI China Internet ETF (KWEB) lost 31%, with almost all sectors suffering to some degree.

After the Chinese Communist Party (CCP) centennial on 1 July, the bulk of severe regulations held back for this anniversary were rolled out. A precarious dive in Chinese names started with an investigation into Didi after its hasty IPO, one many commentators suggested happened despite government warnings. Panic selling climaxed with the total ban and forced nationalisation of the Chinese tutoring industry in July. While many had expected much stricter regulation of tutoring at weekends and in the holidays, few had anticipated what amounted to a very controlled ban through the introduction of a not for profit model. This black swan event spread panic across the internet, healthcare and consumer discretionary sectors as investors feared they could be the next target of regulatory clampdowns.

In August, further light was shed on the Chinese policy direction with President Xi's emphasis on "wealth redistribution for common prosperity", driving a rotation from policy headwind sectors such as internet, luxury and real estate towards tailwind sectors like the electric vehicle value chain, semiconductor tech and high-end manufacturing. To compound equity market pressures, September saw the emphasis move to the USD 60 trillion Chinese property market as China Evergrande's potential debt default raised concerns on systemic risk (even quoted by some in the media as a 'Lehman moment'). Just when things looked like they could not get any worse, the end of the quarter saw large scale power outages occurring in more than half of the Chinese provinces, further dampening the GDP growth outlook for Q4.

It is worth remembering that many of the severe policies (anti-monopoly, real estate, three redlines, etc) had already been proposed in Q4 2020, but the duration, intensity, scope and velocity combined are unprecedented in recent history. The unpredictable nature of regulation has spooked many global investors as funds moved underweight China in the third quarter, with Chinese equities underperforming their counterparts in the US by circa 30% despite a higher growth rate.

The conundrum – grow the pie or split it?

The tightening regulatory cycle was largely unexpected, particularly its magnitude, as it seemingly crushed the economy while the rest of the world was striving to step out of the pandemic. From a Chinese internal standpoint, 12.7% growth for H1 2021 leaves plenty of scope for a sharply slower second half when considered against an annual target of 6%. The more pressing task for the regulator, in our view, will be the management of 2022 and the requirement to keep growth going.

China's large population, which once fuelled the fastest growing major economy globally, is now slowing and ageing. While annual population growth slowed to 0.5%, the 2020 census suggests the elderly dependency ratio has doubled over the past 10 years, adding a burden to China's already in-deficit pension system. The regulator reacted swiftly by abolishing its decade-long one-child policy, only to find out a second / third / unlimited child policy is not enough to incentivise more births.

Consequently, a second solution was introduced consisting of actions to clear all obstacles that could be seen to hinder births. In particular, three sectors were targeted – education, housing and healthcare – as they are deemed to be the heaviest burden for household income and wellbeing. The front runner was the crackdown on the private tutoring industry with a K12 (kindergarten to 12th grade) student in China taking as much as half of the disposable income of a less-well-off family. Paired with this is the desire to curb ever-escalating house prices, given property locks up over 60% of household wealth in China. The cooldown in sales of property, paired with a rigid restriction on developer leverage, had also foreshadowed the Evergrande episode into September. Last, authorities have levelled up national drug procurement to include medical equipment. This, combined with a pricing reform on healthcare services, shocked the private hospital industry.

Facing the population conundrum and a growth bottleneck, authorities have inevitably refocused from growing the pie to splitting the pie. An economic slowdown will hurt the underprivileged more than the affluent, while the key to social stability depends on the least well-off under the pyramid. Hence the ideology of 'common prosperity' from Das Kapital, once targeted to be achieved by 2050, has been brought forward to address the rising demand of the social safety net. Such a statement has been interpreted as far left given global investors focused more on 'common' over 'prosperity'. Corporates also speedily reacted as large-cap internet platforms like Tencent, Meituan and PDD all advocated such a cause by setting up billion-dollar common prosperity funds or realigning their corporate strategy to enhance social responsibility.

Look beyond the turbulence

Such drastic measures have not only damaged stock market sentiment, but also impaired businesses and livelihoods. Hundreds of thousands of jobs vanished overnight from the tutoring industry, lifetime savings locked up in housing depreciated with developers knee-deep in mud and medical resources became scarce as the low-price procurement exacerbated a shortage. The rigorous attitude from the central government has also resulted in reckless local policy execution. Recent power outages that aimed to curb energy-intensive manufacturing spread to consumer power usage. Macro numbers have also been unfavourable with August retail sales growth falling to a one-year low of 2.5%, and September's manufacturing PMI contracting for the first time since the Covid-19 outbreak.

Onshore China is eagerly awaiting a liquidity injection (1-2 reserve requirement ratio (RRR) cuts expected in 2021) to support the slowing economy. Although it is still too early to wish for a reversal of the clampdown, regulators have been placing a safety net to secure economic activities. As Q4 has traditionally been a peak season for manufacturing and consumption, running such favourable seasonality into a macro-heavy calendar might be too costly for the regulators, especially as an important political period approaches in Q1 2022.

We believe investing in this environment requires a change of focus. We are looking towards the policy-tailwind sectors that the authorities see as long-term leaders. The key word for the Chinese political agenda has become "restructuring"; reducing reliance on labour and imported technologies, and overtaking incumbents in a digital 4.0 world. China had a head start in de-carbonisation technologies that have plagued the goals for "peak emissions before 2030 and carbon neutral before 2060". We think green development and decarbonisation will be a major beneficiary of a changing political agenda, and have been investing into the policy tailwind with positions in the electric vehicle value chain and corporate digitalisation.

Cybersecurity gains importance in a changing landscape

By Pieran Maru

Cybersecurity has been a growing theme driven by two key factors: government action due to recent high-profile incidents / ransomware and the lockdown catalyst as firms move away from traditional on-premise locations to modern hybrid environments.

US President Joe Biden pledged to make cybersecurity a top priority of his administration in December 2020 after the SolarWinds hack impacted circa 18,000 customers, including many US government agencies. Following the high-profile Colonial Pipeline hack in May 2021, the White House promptly released an executive order on improving the nation's cybersecurity which is expected to impact every industry. This was subsequently followed by Biden meeting with 30 industry leaders in August 2021 to discuss addressing threats and initiatives to bolster their cybersecurity; outcomes included Google announcing it will invest USD 10 billion over five years and Microsoft stating USD 20 billion over the same period will be used to accelerate efforts to integrate cybersecurity.

Traditional legacy network security systems use the classic castle-and-moat approach; the assumption all activity from within is trusted with barriers / firewalls to prevent external bad actors. However, with more complex environments such as data stored on multiple clouds, users accessing from multiple devices beyond a firm's perimeter and increasingly more sophisticated threats requires a modern framework – Zero Trust. Regardless of where the request originates from, Zero Trust takes the 'never trust, always verify' approach for every user and device. Another benefit of Zero Trust is the micro-segmentation principle. Micro segmentation creates smaller zones for different parts of the network and requires separate authorisation to assist in minimising lateral movement across the network should a bad actor breach it. Zero Trust provides a new layered approach and allows faster detection to expose vulnerabilities.

The circa USD 150 billion of annual cybersecurity spend is expected to grow in excess of 12% a year as firms move to minimise reputational risk from ransom attacks and reallocate a larger part of IT spend to this landscape. The fastest-growing segment sits within cloud security at +41% year-on-year growth, followed by data security, infrastructure protection and identity access management at circa 16% year-on-year growth.

The rising tide of buy now, pay later - a new and forceful wave in payments

By Kevin Kruczynski

Buy now, pay later (BNPL) has been a hot and fast-developing theme in 2021. In the third quarter, Square acquired Afterpay for USD 29 billion reflecting the intensifying battleground, Amazon announced a deal with Affirm to offer the service as a checkout option, PayPal augmented its own BNPL product with the USD 2.7 billion acquisition of Paidy, and Apple is working with Goldman Sachs to offer its service through Apple Pay.

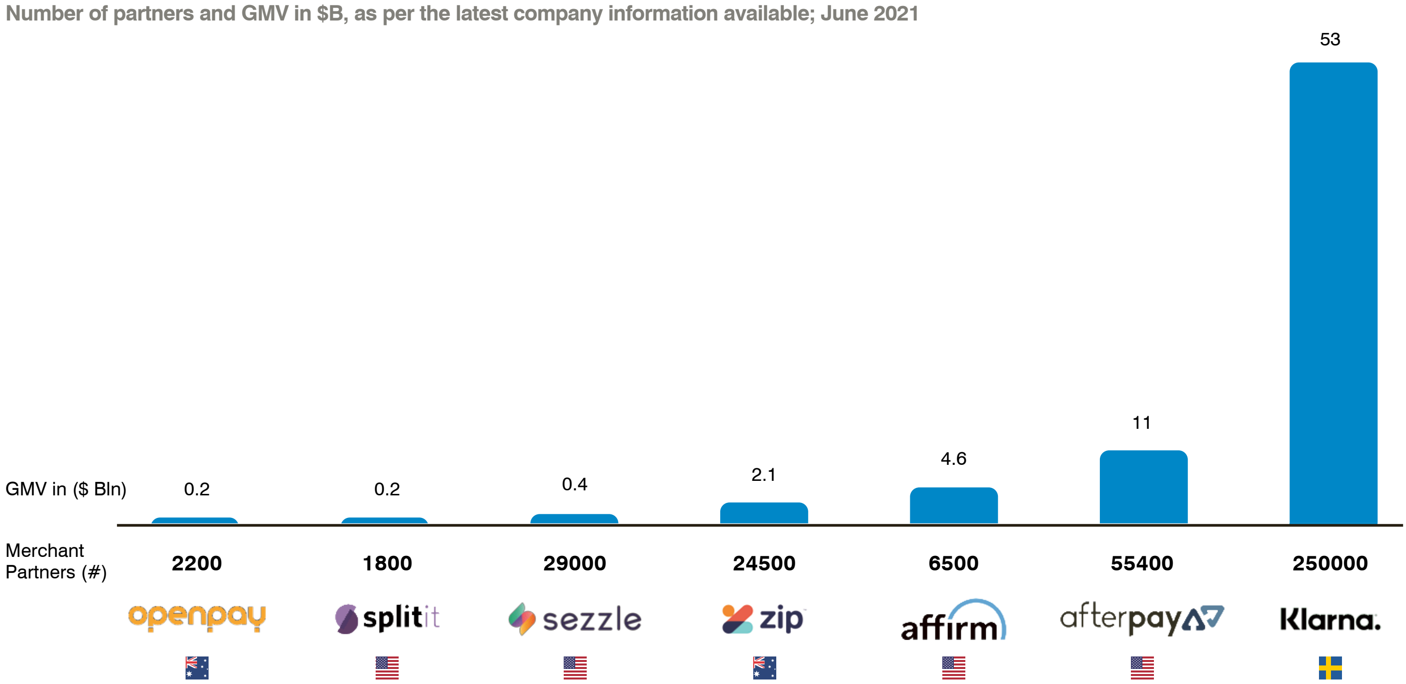
It is a concept that has been around for decades, so what has triggered the recent wave of enthusiasm? A handful of forward-thinking companies have embraced technology to streamline the process into a very simple user-friendly format. For example, Afterpay makes an instant decision to approve a new customer based on six simple inputs and no credit check or proof of income. This has proven to be particularly popular with millennial and Gen-Z consumers, who view the format as a payment plan, rather than debt.

The BNPL business model relies on a merchant fee of between 2% to 6%, which is higher than the fees levied by credit card companies. Why are retailers happy to pay more to offer this service? The simple answer is BNPL customers have higher conversion rates and significantly higher average order values. Afterpay was also quick to spot the high take up among millennials and leapt on this as a key selling point, given how difficult the cohort has been to reach through traditional marketing methods. It worked well in Australia, and merchants such as Urban Outfitters pulled them to the US and UK. The key is that the BNPL companies are enablers of growth for their retail partners, as well as a no-strings convenient finance product for the end consumer; this has created a strong network effect, as more customers attract more retailers, which attracts more customers, and so on.

Retailers with greater e-commerce penetration, catering to younger fashion-conscious consumers, have been enthusiastic early adopters with the payment option featuring prominently on several fast fashion websites. Luxury brands, having been slower to adopt e-commerce at all, have also been more reluctant to embrace the concept, for fear of being associated with selling products to people that are unable to afford them. Gucci is a rare example of a luxury brand offering BNPL through Affirm, only in the US – signalling its courting of a younger demographic in this market. E-commerce platforms, such as Farfetch and Net-a-Porter have started to offer BNPL options but have to date restricted the availability to a narrow range of products and price points.

Analysis by Accenture suggests BNPL transactions have more than tripled in the US since January 2020, and the 2021 Worldpay Global Payments Report shows its share of the USD 1.1 trillion US commerce market is still only 2% (or USD 22 billion); there is a long runway of growth ahead as the US converges with more mature markets.

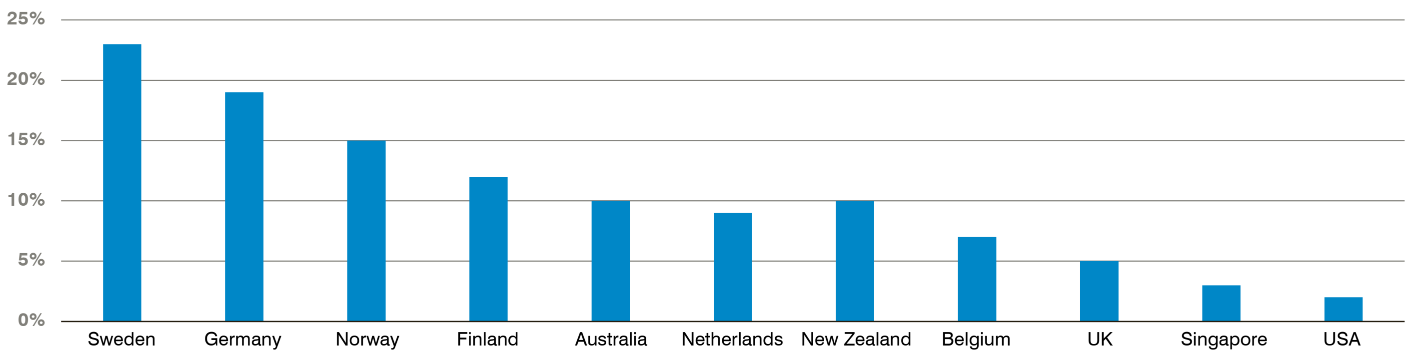
Chart 1: Overview of BNPL providers, ranked by size



Source: Fincog. Number of partners and gross merchandise value in USD billions. Data as of June 2021. For illustrative purposes only.

As Chart 1 illustrates, Klarna is the clear independent leader and as a result of its Swedish heritage, the Swedish market is over 20% penetrated with BNPL as a percentage of e-commerce sales. This is an indicator of the opportunity set globally that has not gone unnoticed.

Chart 2: BNPL penetration as a percentage of e-commerce sales



Source: FIS Global Payments Report. Data as at 30 September 2021. For illustrative purposes only.

The moats of the dominant BNPL platforms are about to be tested as banks and card companies, who have been slow to get on board, have now announced plans to offer the service. Mastercard, which has a network of 78 million merchants, launched a suite of tools to facilitate BNPL in an effort to ensure the transactions stay on its “rails”. PayPal offers the services to its merchants for no additional cost and is adding the option onto its new super app. This is likely to trigger a race to the bottom on merchant fees, which we expect to converge towards credit card levels. While the impending initial public offering (IPO) of Klarna will be an interesting data point, we see this development as much more of an opportunity for the card issuers to consolidate their positioning and with the network effect generated by Visa, Mastercard and PayPal, it seems highly likely that they will end up being the leaders by adding the back-end processing of BNPL as an attractive product for their card issuing clients.

Crypto: Chinese regulation in the Western World

By David Goodman

China makes decentralised crypto currencies illegal

In a decisive move, the People’s Bank of China (PBOC) made decentralised digital currencies illegal in September 2021 by banning transactions of crypto currencies and officially declaring all activities related to digital coins as illegal. The bank stated: “Virtual currency-related business activities are illegal financial activities.” It added that there are “legal risks for individuals and organisations” participating in virtual currency and trading activities.

China launches own centralised digital currency

Critically, in tandem with this ban on decentralised crypto currencies, China has launched its own central bank digital currency. In 2020, an image of China’s sovereign digital currency, the Digital Chinese Yuan (DCNY), was leaked online – it featured a wallet that accepts various forms of payment, including mobile payments and QR codes.

The PBOC explained that the launch of the DCNY was in response to the threat posed by the rise of decentralised crypto currencies, such as Bitcoin, and that a centralised digital currency would help improve the efficiency of transactions within China. One such feature involves programming the currency to expire after a given time, encouraging spending to stimulate the demand side of the economy.

The PBOC has already launched DCNY in several cities through pilot programmes and it has proved a popular move. In October 2020, the people in Luohu District of Shenzhen spent almost USD 10 million during a week-long trial of the digital currency, with over 200,000 registrations made. While still in its infancy, DCNY is the most comprehensive central bank digital currency project worldwide, ahead of 110 countries pursuing digital currencies.

Central bank digital currency (CBDC) – a good thing?

Back in 2014, when China began to publicly plan for its digital currency, other countries looked towards China and started to explore their own options. According to a survey conducted by the Bank for International Settlements, 86% of central banks were examining the advantages and disadvantages of launching central bank digital currencies, although only 14% were in advanced stages of development, ie running pilot schemes. While many countries were initially sceptical of China’s plan to create a digital currency, the pace at which it has taken off has prompted many to seriously consider their own response.

In a recent report, the Bank of England stated: “A central bank digital currency would allow households and businesses to directly make electronic payments using money issued by the Bank of England”.

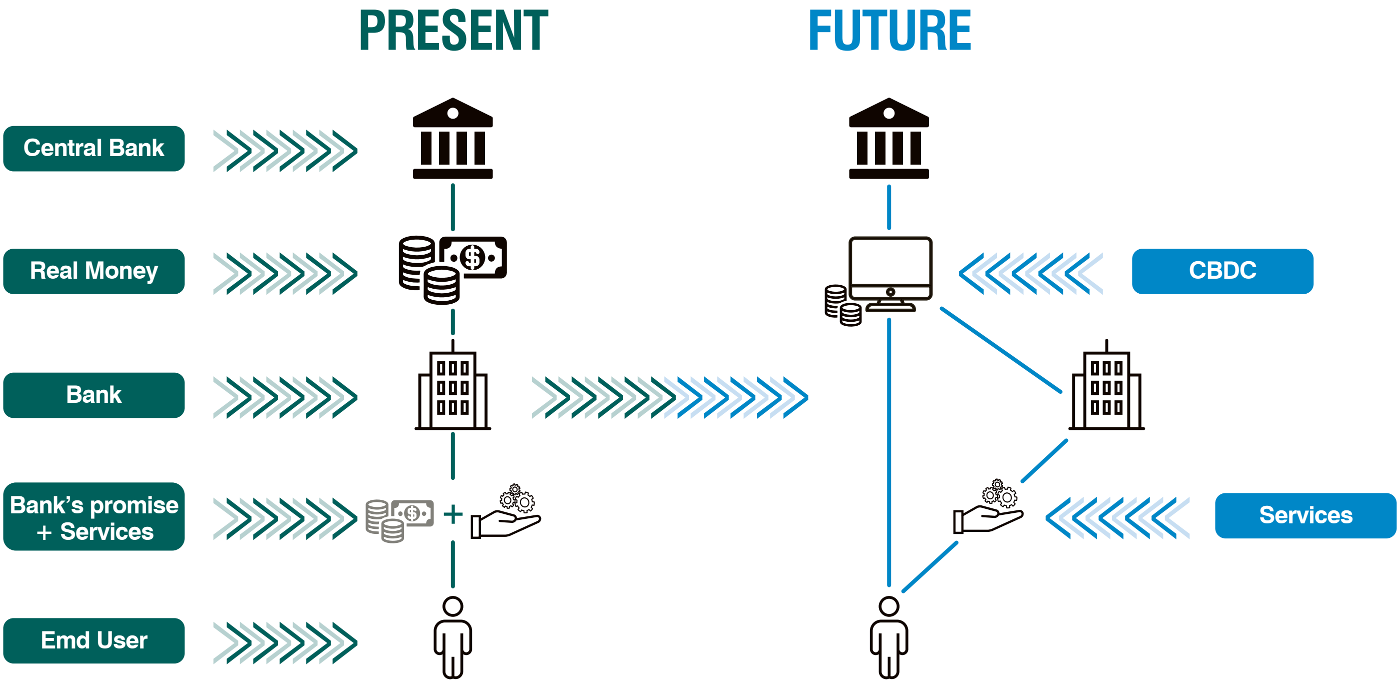
What does it mean to have digital currency?

While most people view their money as digital, in reality what they have are deposits with their high street banks and digital access via an app. Currently, only commercial banks have rights of use to the central bank, but a central bank digital currency could give consumers and businesses direct access to central banks for the first time.

What is meant by a central bank digital currency?

Broadly speaking, a central bank digital currency describes a digital form of fiat currency that uses blockchain technology to maintain its ledger. Unlike crypto currencies, a central bank digital currency is administered by a central body; in most cases this would be a country’s central bank. For the end user, the value that the digital unit represents – such as a digital pound sterling – remains unchanged.

Figure 1: Possible Future: The introduction of CBDC could remove risk from users, and allow banks to focus on services



Source: Daml, as of 19 May 2020. For illustrative purposes only. https://daml.com/blog/engineering/what-is-a-central-bank-digital-currency-and-why-should-people-prefer-cbdc-over-bank-accounts.

What are the benefits of a digital currency?

Bank of America's digital asset research unit revealed in a recent report that 221 million people have purchased or sold a cryptocurrency as of June 2021, up from 66 million in May 2020.[1] As we rapidly move towards contactless payments and online transactions, we depend less and less on physical currency. These digital currencies can be thought of as an upgrade to money-over-internet protocols that we are already familiar with through our online transactions. As with any upgrade, additional features are added which improve the speed, efficacy and overall experience of its users. Which features are implemented will depend on decisions made by the respective projects, but broadly speaking, these include reduced settlement times and enhanced monitoring of payment networks.

Private crypto currencies or stablecoins – what is the current status?

The crypto world has already created many private cryptocurrencies backed by a reserve asset – known as stablecoins. These have become the private sector's solution to digital fiat currency. A privately issued type of cryptocurrency with a mechanism to minimise price fluctuations and 'stabilise' its value, the aim of stablecoins is to provide an alternative form of risk-free digital currency which operates independently of commercial banks and can be used directly by consumers regardless of their banking status. With traditional banks often unwelcoming to crypto companies, stablecoins have become a vital part of this fledgling sector. Stablecoins enable billions of dollars to change hands seamlessly and now account for over USD100 billion of capital invested within the crypto ecosystem.

As the crypto industry grows past USD 2 trillion, it is no surprise that central banks are becoming increasingly interested in this golden opportunity.

Stablecoins versus central bank digital currencies

In support of stablecoins

Some believe central banks should allow the private sector to carry on and innovate. There are predictions from some quarters that the rapid adoption of central bank digital currencies could threaten the stability of the financial system

[1] https://markets.businessinsider.com/news/currencies/bank-america-bofa-digital-assets-cryptocurrency-report-debut-transformative-blockchain-2021-10

and trigger unknown risks. Others are concerned that a central bank digital currency would give greater power to central banks as the currency can be programmable – ie a conditional form of payment which could be manipulated both positively and negatively and could conflict with personal freedoms, for example:

- With the widespread use of digital wallets, a central bank could make targeted payments much more quickly and easily than, say, increasing benefits and allowances, which take time to enact
- Central banks could add conditions to the newly issued money, eg spend it within 30 days, but only on food and children's clothing, and not on wine or gambling
- Central banks could implement monetary policy tools such as negative interest rates. In this case, you pay interest on your deposit as if it were a loan. Your balance slowly shrinks over time.

In support of central bank digital currencies

Many view stablecoins as too risky due to their lack of transparency and governance. A private company issuing stablecoins may be able to claim its digital dollars are backed by real dollars, but there is a chance it could go wrong, whereas a sovereign central bank digital currency is government backed and therefore guaranteed to the same extent as sovereign bonds. In answer to the fears over central banks becoming too powerful, those in support argue that safeguards will be put in place and a successful central bank digital currency would embrace all of the freedoms that are currently enjoyed by cash.

The bottom line

While it is still too early to see which way things will go, the underlying megatrend is that money is being digitised whoever happens to be doing it. Although central banks have firmly stated that central bank digital currencies should work alongside cash and not aim to replace it, the fact is even the best form of cash, digital or otherwise, it is still fiat money that inflates away over time. There is also is the issue of government taking more control over the populous. It is too early to tell how governments will handle digital currencies. In the meantime, the bottom line is investors who want to fight inflation are wise to own hard assets, whether they be shares, bitcoins, gold bars or houses.

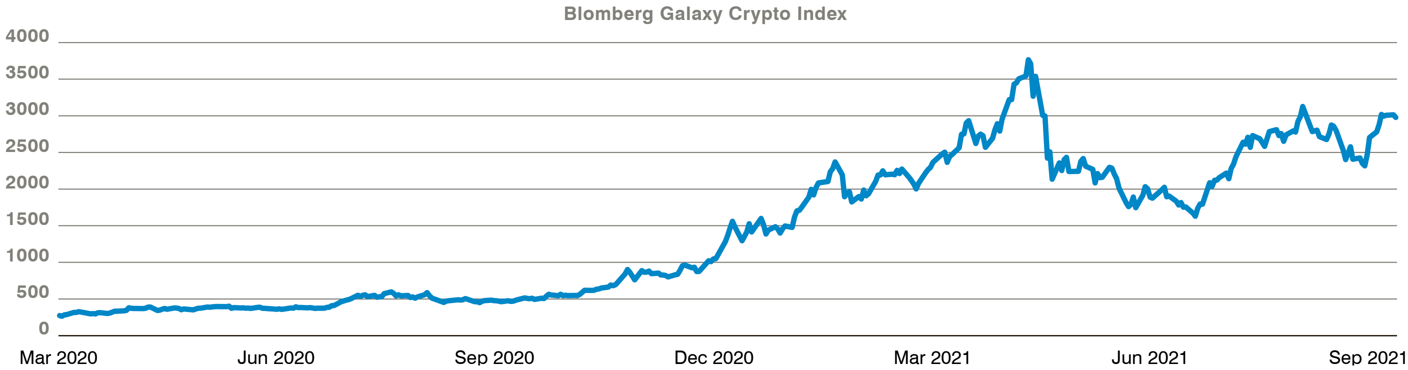
Outlook

We are entering what we expect will be one of the more interesting earnings seasons. Post-Covid-19 dynamics are creating cracks in smooth running economic supply chains. Both goods and labour are highly impacted, at least in the short term. This is leading to suppressed output and rising costs. We believe that the uncertainty created by these shifts will keep a lid on equity markets for the next couple of months until there is a clearer picture of the outcomes. However, as always within the equities universe, there are many opportunities in our view. We continue to favour exposure to the Digital 4.0 theme that will drive significant disruption in more traditional sectors, like industrials, transportation, healthcare and financials.

We believe the recent outage at Facebook could turn out to be a significant catalyst in the likely move towards Web 3.0. Web 3.0, driven by the internet of everything, 5G, artificial intelligence and lots of data, will tackle the increasing problems of closed internet communities. When Facebook went black for a number of hours, half of the global population were unable to interact in greater or lesser degree. Many companies have built their models on the Facebook platform. There were knock on effects for payments companies globally as networks became clogged by a surge in traffic for other applications. It was a clear lesson that centralised computing has many disadvantages and, in the case of the largest companies, they are now too big to fail. As a result, Web 3.0 gets a significant boost. It was no surprise to us that the sharp rise in Bitcoin back towards the all-time highs coincided with this outage. In Web 3.0 the world of connectivity moves to an open, trustless and permissionless world - trustless and permissionless in the sense that there is no need for a single governing body or a centralised compute infrastructure. There are already some really interesting 'companies', perhaps better named as communities, that are looking to create social networks where the network members control the value of the users and the information they provide. Bitcloud, for example, is a Twitter-like product with no central owner built on the blockchain. This theme is just beginning and we expect it to be sizable, perhaps as large as the traditional internet is today.

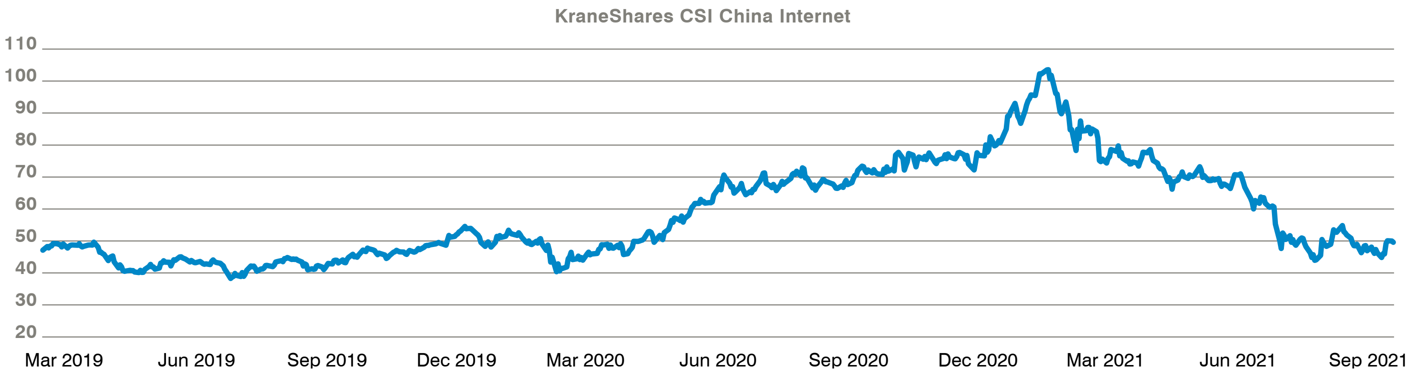
Many investors are concerned that markets are at all-time highs with all of the uncertainty creating a cloudy outlook. We think that in the context of the disruptive segment of the market, there have already been some significant pullbacks in many sub-themes.

Chart 3: Bloomberg Galaxy Crypto Index



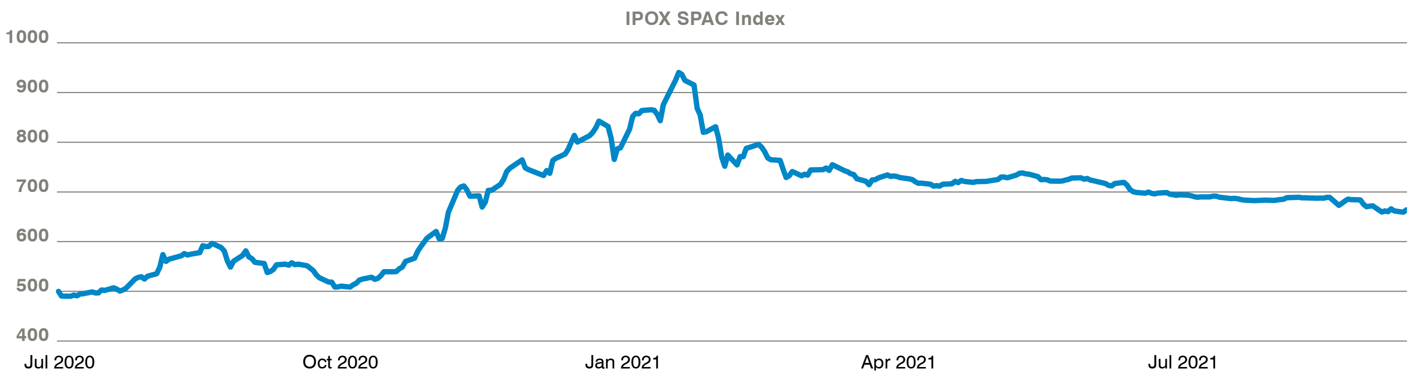
Source: Bloomberg. Data as at 30 September 2021. Past performance is not a reliable indicator of future results or current or future trends. For Illustrative purposes only.

Chart 4: KraneShares CSI China Internet ETF



Source: Bloomberg. Data as at 30 September 2021. Past performance is not a reliable indicator of future results or current or future trends. For Illustrative purposes only.

Chart 5: IPOX SPAC Index



Source: Bloomberg. Data as at 30 September 2021. Past performance is not a reliable indicator of future results or current or future trends. For Illustrative purposes only.

Earlier in the year, the software sector suffered a significant bout of profit taking; more recently as Charts 4 and 5 show, there have been decent pullbacks in China as well as the hyped SPAC market. In addition, crypto saw a correction earlier in the quarter, see Chart 3. This leads us to believe that the level of speculation in themes has been much better balanced and the risk / reward therefore remains more favourable for the segments and themes that we find particularly interesting.

For all the reasons talked about in this newsletter, as well as a rising tide of regulatory concern, we remain convinced that the optimal risk / reward investing in disruption will be focused on the Digital 4.0 opportunity. In our view, this will see many new leaders emerging from both the start-up world, but equally from within existing incumbents determined to move to disruptive models, just as Domino's Pizza and Starbucks did in the Digital 3.0 era.