The Essence

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You Don't Know What You Have Until You Lose It

Source: PA Media

His mother and father met at the funeral of Queen Victoria in 1901 (she was the longest-reigning British monarch until today's Elizabeth II). At a time when all but four of Europe's nations were monarchies, his ancestors and relatives were scattered through European royalty. His grandfather was the King of Greece; his great-aunt Ella was murdered, along with the Russian tsar, by the Bolsheviks, at Ekaterinberg. His four older sisters would all marry Germans. While he fought for Britain in the Royal Navy, three of his sisters actively supported the Nazi cause; none would be invited to his wedding.

He never wanted for food, clothing or good schooling, but his childhood was not one of extreme privilege. The Greco-Turkish War – linked to the partitioning of the Ottoman Empire as a direct consequence of World War I – resulted in the exile of the royal family with their 18-month-old in tow. Before he turned nine, his family life tumbled further as both parents abandoned him and he was shipped off to live with relatives in Britain. "*It's simply what happened,*" he later recounted. "*I just had to get on with it. You do. One does …*" said with a matter of factness that, in a way, defined his character.

More tragedies would follow, including the death of his new caregiver (Uncle "Georgie") and then his pregnant sister. By the time he went to Gordonstoun, a private school on the north coast of Scotland, the boy was tough, independent and able to fend for himself; he had to be. Gordonstoun would channel those traits into the school's philosophy of community service, teamwork, responsibility and respect for the individual. And it sparked one of the great passions of his life – his love of the sea. Finally landing under the guardianship of Georgie's brother, Uncle "Dickie" Mountbatten, the young man joined the British Royal Navy and flourished.

In this issue ...

When George VI, King of England, toured the Naval College, accompanied by Navy Captain "Dickie," he brought with him his daughters, Princesses Elizabeth (13) and Margaret (8). Dickie's 18-year-old nephew cadet was asked to look after the elder of the two. He was confident, outgoing, handsome and (required at the time) of royal blood if without a throne. She was beautiful, a little sheltered, a little serious and quite smitten by the Navy man. Thus, the future Queen Elizabeth II was introduced to her future husband, **Philip Mountbatten**. For the rest of their lives, they never looked at anyone else in quite that way.

After the war, in 1947, they married. It was reported by *The New York Times* that "*200 million people around the world listened, the first time the wedding of an heir to the throne was broadcast live on radio.*" Not long thereafter, on February 6, 1952, the King of

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England suffered a fatal heart attack at the age of 56. His princess became ***Queen Elizabeth*** and Philip's world would change forever.

We tell a bit of the life of Prince Philip, Duke of Edinburgh, husband of Queen Elizabeth, on the occasion of his death, at age 99, earlier this year. He was an impactful man, one whom should have been studied more during his lifetime. Here we tell a snippet of the life of the Duke. We are honored to tell these stories, yet we encourage our readers to prod further for a far more in-depth biography. Our summary point is that he added value, not only to the Crown, but to the world. He is already missed.

By some, Philip was seen as ahead of his time, embracing the ideas of industrial design, planning, education and training as early as the 1950s. As his country and the world became richer and consumed ever more, Philip warned of the impact on the environment, well before it was even vaguely fashionable. Some say he was an environmentalist before even he really knew what that was – more so than singularly today's "climate change" thought, but in the exploitation (nay, overuse) of the world's resources, and the harm that may cause. "*He believes he has a creative mission,*" wrote an early biographer, "*to present the monarchy as a dynamic, involved and responsive institution that will address itself to some of the problems of contemporary British society.*"

"*The essence of freedom,*" he would say in Ghana in 1958, "*is discipline and self-control.*" The comforts of the post-war era, he told the British Schools Exploring Society a year earlier, may be important "*but it is much more important that the human spirit should not be stifled by easy living.*" And two years before that, he spoke to the boys of Ipswich School of the moral as well as material imperatives of life, with the "*importance of the individual*" as the "*guiding principle of our society.*"

He believed in individualism and in the rights of the individual in society. Further, he used his bully pulpit to espouse his views, believing they were reflective of all democratic and freedom-seeking societies. Interesting, though, that through the decades of life in the Royal Palace, **his** person was ever so bound by rules of tradition, of precedent, of command and of hierarchy. **His** individualism came by his **choice** to put his personal liberties behind those of his queen, country and the democratic world. His 60-80 speeches every year, decade after decade, reflected his vast interests and continued sense of duty to influence the world.

Like the rest of us, though, he was not perfect. While we do not wish to demean the life of the man, as was common in that era, Philip was a sexist. He believed that men had certain attributes that allowed them to "rule" beyond what women were "meant for." This is both a paradox and a virtue of the man who then followed (literally) his wife for the rest of his days.

Also, at times he was self-deprecating. At the 1958 Brussels Expo, when asked to give a speech, he said, "*I feel I can claim to be an expert at going round exhibitions.*" He knew many speeches were a dull formality that had to be got through – and he was most happy to let his audience have a laugh at his expense. He was quoted as saying "*Dontopedalogy is the science of opening your mouth and putting your foot in it, which I've practiced for many years …*" He knew that speeches were a part of his duties.

Often a jokester, later in life it was reported that he would be giving up his official duties. When told by a well-wisher, "*I'm sorry you're standing down,*" the Prince replied, "*Well I can't stand **up** much longer!*"

With what we have studied, Prince Philip was, relative to his post, an unknown. Because of his desire for privacy, because of that post which he loved dearly, and because nearly all who knew him best have preceded him, our understanding of him will always be incomplete. He was less known, too, as he saw it as his rightful place in supporting (never supplanting) his queen. She needed protection, both physical and mental, and Philip was there to provide the latter.

Somehow the press also favored other royalty. Perhaps it's because they made more "news" such as divorce and family gossip, or perhaps it is because other royalty secretly sought the notoriety while Philip largely avoided such. This author has not (yet) seen the Netflix series *The Crown* where more about Prince Philip (and all the royals) may be learned. Careful, though, as we're told that, while praised for its acting, directing, writing and cinematography, there's plenty of poetic license taken by the writers.

Sometimes you don't appreciate (or even realize) what you have until you lose it. In the time since his passing, one of our portfolio managers (PMs) began to familiarize himself with the life and deeds of Prince Philip. "*Why hadn't I followed this person previously?*" the PM asked. Even with all the pomp and circumstance surrounding him (and, of course, his queen), he went little noticed in many circles. "*Could it be that it was his consistency of person and of purpose that had him less followed than if he would have **tried** harder?*" thought our PM. Yet the understatement of the individual made him ever the more valuable. So, for the Duke and, perhaps, so too for investing.

[Much of the above was taken from various public sources and general knowledge. The direct quotes were taken from BBC News (including as written by Jonny Dymond, Royal Correspondent); *People Magazine's* Commemorative Edition, a reissue of a Special Edition published April 16, 2021, by Meredith Corporation; Wikipedia, the free encyclopedia; and "25 Things You Didn't Know About Prince Philip," an RD.com article by Tina Donvito.]

Consistency of "Quality"

It could hardly be said that Prince Philip came from a humble background – he was, after all, born Philippos Andreou of the royal house of Schleswig-Holstein-Sonderberg-Glücksburg, eighth in line for the Greek throne. Perhaps his displacements as a child had him acquire a more "common man" air that remained even as he ascended "ranks." The commonality with business is that it, too, often remains in a distinct category over long periods of time. Not particularly for ***nine-nine years***, but companies often remain either "good" or "not quite so good" for periods measured in decades. The following chart illustrates our point.

Largest Twenty Companies
(ranked by market capitalization)

1990	2000	2010	2020
IBM	GE	Exxon Mobil	Apple
Exxon Mobil	Exxon Mobil	PetroChina	Aramco
GE	Pfizer	Apple	Microsoft
Altria	Cisco	BHP	Amazon
Toyota	Citigroup	Microsoft	Alphabet
Bristol	Walmart	ICBC	Facebook
Merck	Vodafone	Petrobras	Tencent
BP	Microsoft	CCB	Tesla
Walmart	AIG	Shell	Alibaba
BT	Merck	Nestlé	Berkshire
Coca-Cola	Nokia	China Mobile	Visa
P&G	Intel	Berkshire	TSMC
Roche	BP	GE	Samsung
Cigna	GSK	Walmart	J&J
Chevron	Docomo	Alphabet	Walmart
DuPont	Oracle	Chevron	JPMorgan
J&J	AT&T	IBM	Moutai
Verizon	Coca-Cola	P&G	Mastercard
PepsiCo	IBM	HSBC	P&G
Nestlé	J&J	AT&T	Nestlé

Old members New members

Source: Bloomberg Economics

While over shorter time periods (perhaps measured in a few years), market capitalization does not necessarily correlate with business success; over decades, however, we believe it typically does. Thus, the chart above is useful in ranking the top twenty global companies by size. A gray background means the company continues in the ranking list from the past decade, while a purple background indicates a new member.

Not quite equal to Prince Philip's 73 years of "success" (as measured by years of marriage from 1947), the companies depicted above all had at least five and, in four instances, more than 30 years of success, based on this measure. Johnson & Johnson, Nestlé, Procter & Gamble and Walmart were part of this group in 1990 and again, most recently, in 2020. Note that each decade there was a change of about half of the members, meaning the average inclusion approximated five years.

There are fundamental reasons for "good" companies remaining so. They could include the existence of barriers of entry to their business (e.g., patents, geographic locations, experienced salesforces, unique customer insights). There are also some "happenstance" reasons such as the right product at the right time (can we say this of Google?), competitor mishaps, government interference, etc. One of the hardest predictors of success to measure is corporate "culture." Goldman Sachs is such an example, as it has remained one of the most admired investment banking firms for decades in a highly competitive and rapidly changing business. Oftentimes the best begets the best.

Oppositely, challenged businesses can remain so also for extended periods of time. Taken from an article by Jeremy Hill of *Bloomberg News*, it was noted that Texas-based Old Country Buffet declared bankruptcy in April of this year. Is it not surprising that a buffet concept would have difficulties after a year of COVID-related lockdowns? But this restaurant chain, and related companies, previously went through bankruptcies in 2008, 2012 and also 2016. We guess the *fourth* time was not the charm!

EQUITIES STRATEGY

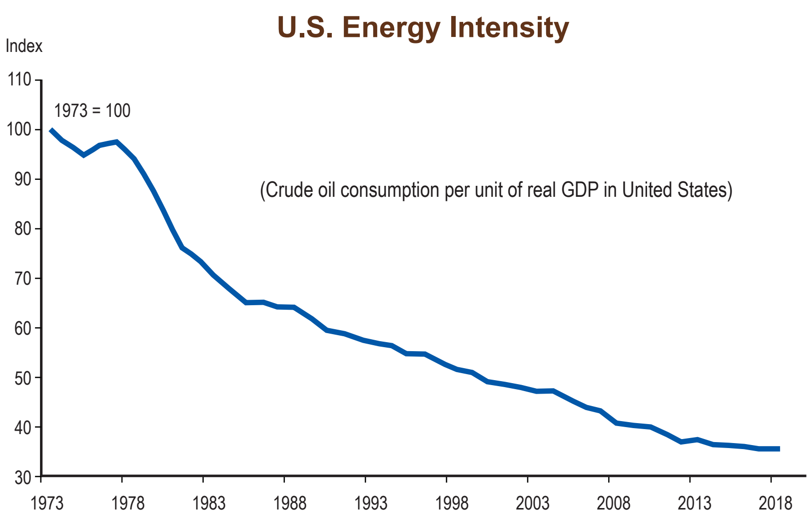
If one increases the price (or decreases the availability) of something, in a free market, business is likely to find ways to reduce its usage. Note from the graph on the next page, that since the 1970s, the energy intensity of U.S. GDP has declined. This decades-long trend followed sharp increases in prices and volatility of supply, largely engineered by OPEC. Similarly, we believe possible that should the cost of labor rise materially, or its availability become less certain, then businesses will surely find ways to become less labor-intensive. This goes for manufacturers (already quite automated) as well as services (perhaps the next sector to be disrupted by productivity inventions).

Recall from last year, in *The Essence* entitled "The Great PAWS," we gave examples of many trends, not necessarily ***started*** by, but certainly ***accelerated*** by the COVID-19 pandemic. Labor was already in short supply, with an unemployment rate below 4.0% in February 2020. We believe that this trend is likely to continue. As discussed by Dr. Edward Yardeni:

"*Demographic profiles are turning increasingly geriatric around the world because fertility rates have fallen below the population replacement rate. The growth rates of working-age populations are declining almost everywhere except India and Africa. Companies in the US and around the world have no choice but to increase their productivity to offset the shortage of labor and rising payroll costs. In our 'Roaring 2020s' scenario, we predict that productivity growth, at an annual rate, will increase from about 2.0% currently to 4.0% by the middle of this decade.*

Companies have access to numerous technological innovations that are being used to augment the physical and mental productivity of their workforces. Productivity … could include lots of companies that produce labor-augmenting technologies, including semiconductors (Analog Devices)*, robots* (YASKAWA)*, 5G communication* (Broadcom), *3D manufacturing* (3D Systems)*, cloud* (Amazon), *quantum computing* (IBM) *and so on* …" Additionally, we believe there are also many ***users*** of technology that, if they can implement more efficiently than their peers, could benefit meaningfully over the coming years.

[Note that the companies within the parentheses above were chosen by us as representative and are not currently in Aristotle Capital portfolios.]



Sources: EIA; BEA; DB Global Research

INVESTMENT ACTIVITY

We would now like to highlight a recent addition to Aristotle Capital equity portfolios:

- **Crown Castle International Corp. (CCI)** is an enabler of the productivity we see coming. It is one of the largest owners of cellular towers and other infrastructure, primarily in the U.S. This country is somewhat unique in that a majority of cell towers are owned by third parties (such as CCI), allowing AT&T, Verizon, T-Mobile and others to share as multiple "tenants" per site. This leads to far higher returns on capital for tower companies than other countries. The ongoing rollout of "5G" services will necessitate more towers and more equipment per tower. For higher-frequency penetration, "small cells" and fiber to connect them will also be required. This is an area of unique expertise by CCI and one which, we believe, will separate the company from its closest competitors. Legally organized as a real estate investment trust (REIT) due to its ownership of its tower assets (plus about one-third of the land they sit upon), CCI pays out a significant portion of its earnings in the form of dividends.

FIXED INCOME STRATEGY

The following was taken from a research note by Dr. Ed Yardeni, February 9, 2021: "*I studied for my PhD in economics from a Xeroxed copy of the 'Yellen Notes' at Yale six years after she had graduated with her doctorate. It was the unofficial textbook for the macroeconomics course taught by Nobel Laureate Professor James Tobin.* [Now that Ms. Yellen is our 78th U.S. secretary of the treasury.] *I recall her neat depiction of the 'investment–saving and liquidity preference–money supply (IS-LM) Model.' It predicts that if deficit-financed fiscal policy stimulates the economy, especially when it is close to its potential output, the result is likely to be higher interest rates. However, if monetary policy intervenes to keep interest rates down, inflation is likely to heat up, as predicted by the Phillips Curve Model, and push up bond yields anyway.*"

Today's "conventional wisdom," as illustrated by Dr. Yardeni's note, is that the unprecedented pandemic that required unprecedented government interventions (monetary and fiscal – both still ongoing with the strong support of Ms. Yellen) will inevitably lead to higher inflation. The only question is how long these elevated prices will persist. But there's an alternative view we'd like to give equal time to.

Businesses have great ingenuity, perhaps more significant now than at any point in time. If so, then, as we discussed earlier in this report, companies may be able to offset most of the inflationary trends with productivity. This could include substitution of volatile commodities (e.g., oil as discussed earlier) with alternative inputs. It could also include the replacement of increasingly tight labor forces with further automation. If this comes to pass, then inflation may remain contained within "reasonable" bounds over the long term.

For now, we suggest the evidence points to the **second** outcome above (ingenuity fostering substitution). We shall monitor trends carefully, as the history of the world suggests that inflation as too "high" or too "low" may not yield optimal outcomes for economies or financial markets.

CONCLUSION

In a statement on April 9, 2021, Buckingham Palace of Westminster said:

"***It is with deep sorrow that Her Majesty The Queen announces the death of her beloved husband, His Royal Highness The Prince Philip, Duke of Edinburgh.***"

He was 99 years of age.

In this edition of *The Essence* we chose to highlight the life of Prince Philip. We wished we had followed him more during his lifetime, but sometimes You Don't Know What You Have Until You Lose It. We briefly summarized his upbringing and then some of his life's work. It was his Consistency of Quality that we then compared to businesses; a trait which changes only slowly.

Like us all, Philip was not perfect. For instance, his quick tongue was, on occasion, faster than his brain. According to the BBC, Prince Philip was "*salt-tongued and short-tempered, a man who told off-colour jokes and made politically incorrect remarks, an eccentric great-uncle who'd been around forever and towards whom most people felt affection – but who rather too often embarrassed himself and others in company.*"

Towards the end of his life, Queen Elizabeth said of him: "*He is someone who doesn't take easily to compliments but he has, quite simply, been my strength and stay all these years, and I, and his whole family, and this and many other countries, owe him a debt greater than he would ever claim, or we shall ever know.*"

One of our portfolio managers, and author of this edition of *The Essence*, was pondering the life of Philip while at a (**virtual**) graduation last month. During one of the (many) speeches, Michael V. Drake, M.D., President of the University of California, implored upon the graduates to strive not only to be "*good,*" but to be "*uniquely excellent.*" "*Good is OK and allows you be home for dinner on time. But 'great' cures diseases; 'great' invents; 'great' changes who we are and what we will become.*" It was a moving speech and, while aimed at a graduating class of doctors, is applicable to the life of Prince Philip and important for investing as well.

Unfortunately, Prince Philip is not our only recent loss. We'd like to try to console, with this tribute to the late Duke of Edinburgh, team members, clients and loved ones of Aristotle for other lives lost and health issues encountered.

The characters described and stories told herein are often, but not always, based on true incidents. Poetic license is taken to dramatize a point about an investment topic. Not all securities mentioned herein are necessarily owned in all Aristotle Capital portfolios. Differences due to restrictions, tax considerations, cash flows and other factors may have impacted the decisions to buy and/or sell certain securities at specific times. Inclusion does not imply that investments in these securities have been profitable and it should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities listed. A list of at least five contributors to and five detractors from performance is available upon request.

> ***"Only the mediocre are always at their best."***
>
> *~ Jean Giraudoux,*
> *French novelist, essayist, diplomat and playwright*

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