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# Two Centuries Investments

## Warren Buffett's Secret Factor, Part 2 – The NLP Edition

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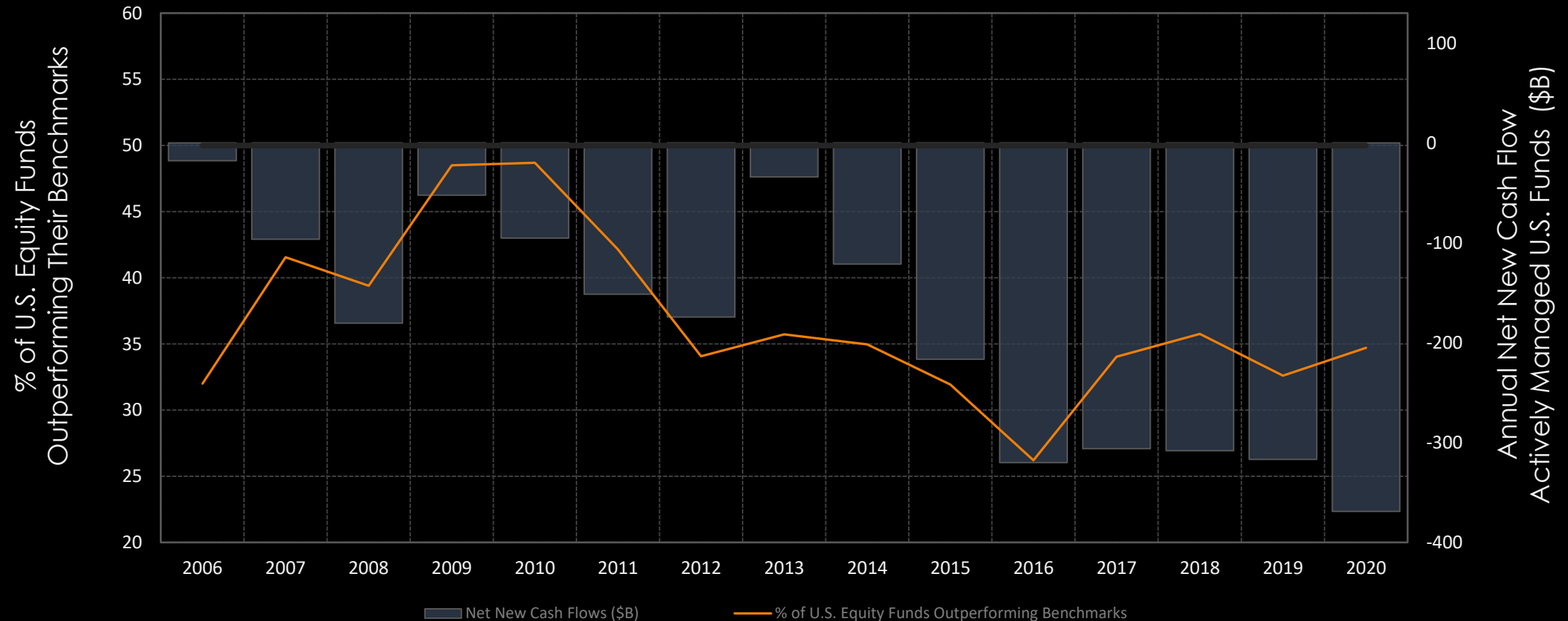
# Warren Buffet's Secret Factor, Part 2 – *“The NLP Edition”*

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*April 2023*

# ACTIVE ASSET MANAGEMENT IS IN CRISIS

## 15 YEARS of UNDERPERFORMANCE & OUTFLOWS



# TRADITIONAL FACTORS ARE TAPPED OUT

## Traditional Factor Model

Book to Price

Earnings to Price

Cashflow to Price

Momentum

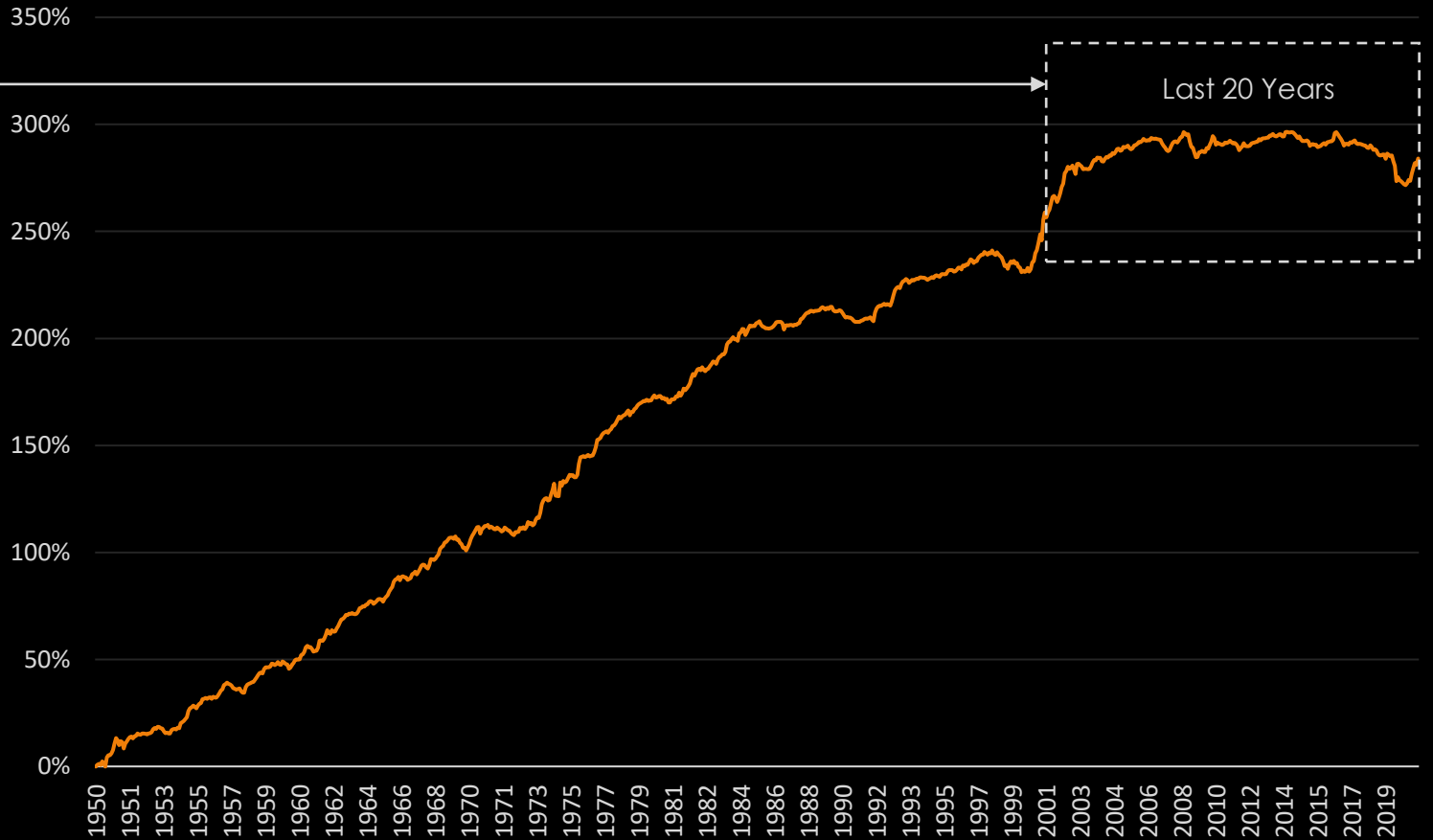
Short-Term Reversal

Long-Term Reversal

Asset Growth

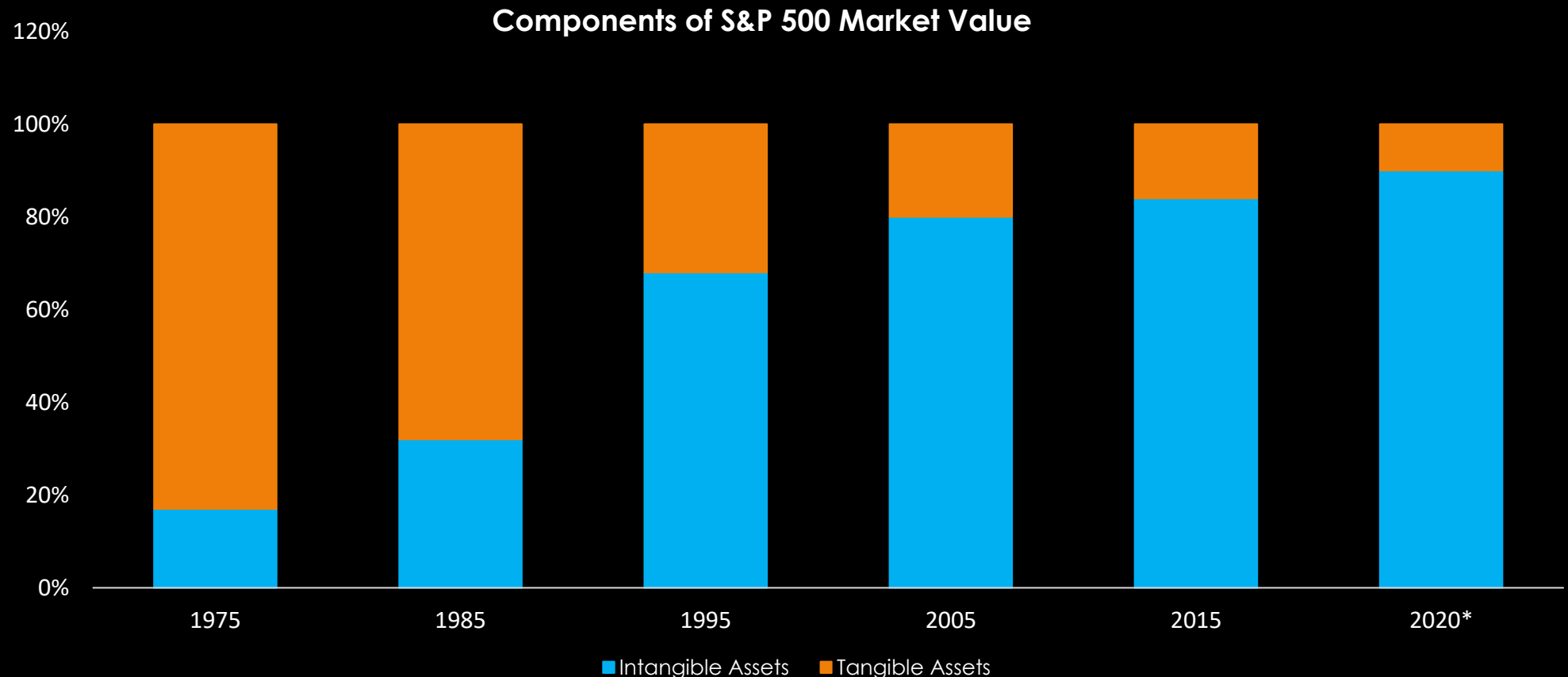
Profitability

Cumulative Excess Returns

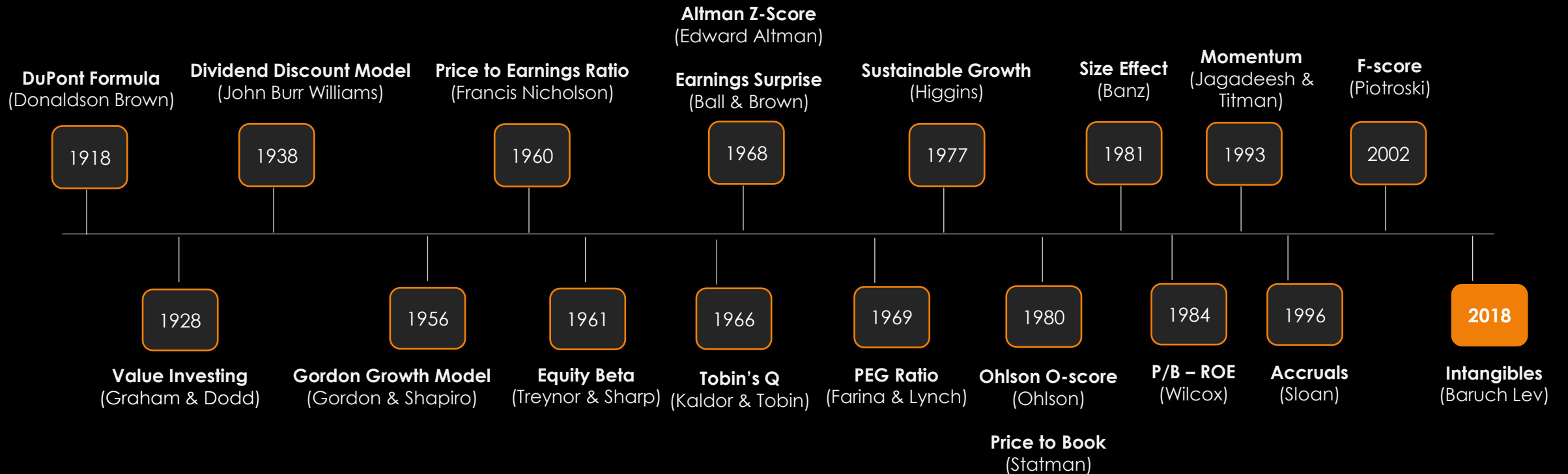


Source: Fama/French Data Library

# STOCK VALUATIONS HAVE TURNED UPSIDE DOWN: **Less Tangible = More Valuable**



# INNOVATIONS IN COMPANY ANALYSIS



Johnson & Johnson

HubSpot



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# WHAT ARE INTANGIBLES? **Examples**

**Brand and Reputation**

**Leadership and Culture**

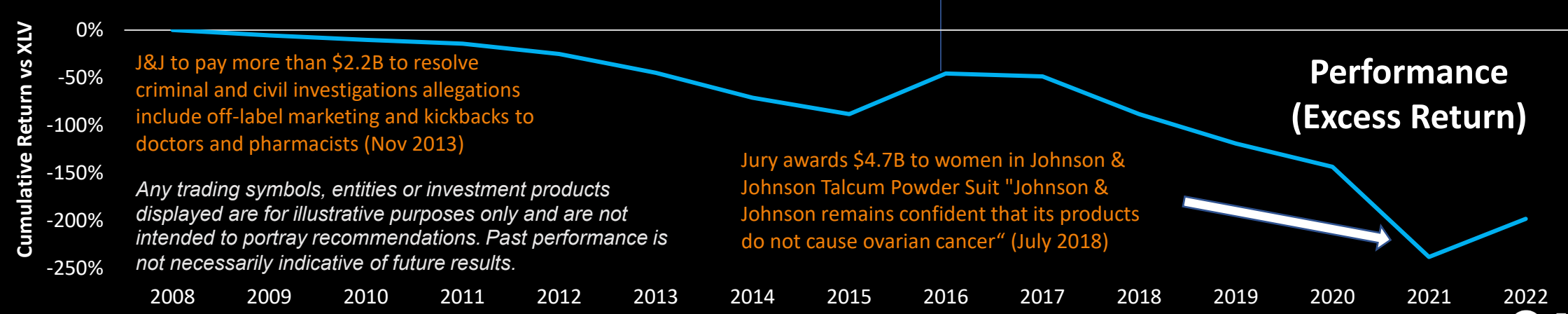
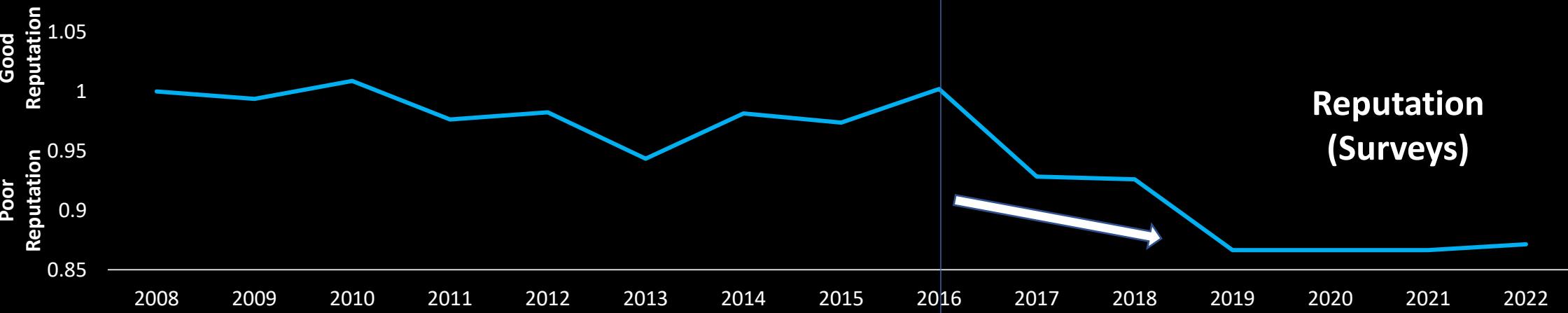
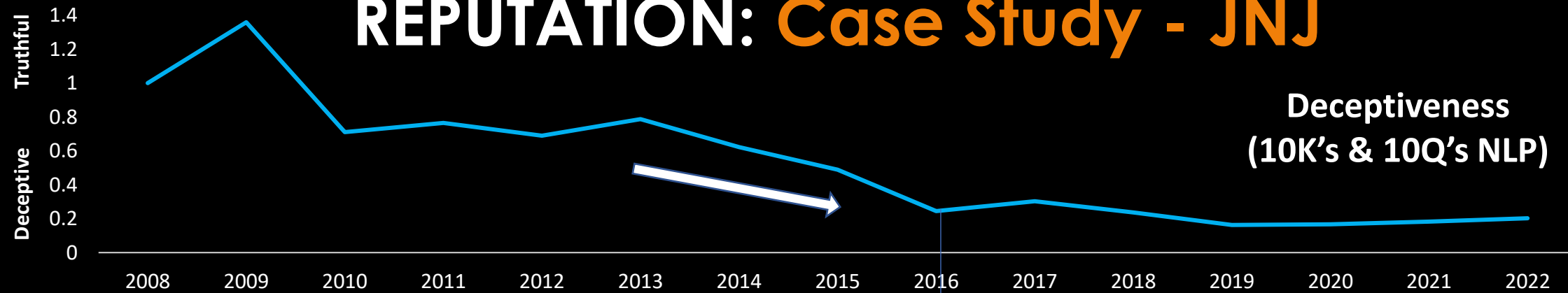
**Human Capital Engagement**

**Customer Satisfaction**

**Social & Environmental  
Responsibility**

- Multiple intangible assets exist, but not all drive significant and consistent performance
- We isolate the most important themes and data sets that create alpha
- Intangible assets enhance implementation of ESG themes

# REPUTATION: Case Study - JNJ



J&J to pay more than \$2.2B to resolve criminal and civil investigations allegations include off-label marketing and kickbacks to doctors and pharmacists (Nov 2013)

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Jury awards \$4.7B to women in Johnson & Johnson Talcum Powder Suit "Johnson & Johnson remains confident that its products do not cause ovarian cancer" (July 2018)

J&J to pay \$5B for downplaying the risk of addiction of pain medicine. J&J will end sales of baby powder & no longer sells opioids (Feb 2022)

# INNOVATION CULTURE: Upon Steve Jobs' return in 1997, Apple introduces the “creative customer”

## APPLE (1996)

The Company designs, manufactures and markets microprocessor-based personal computers and related personal computing and communicating solutions for sale primarily to **education, home, business and government customers.**

## APPLE (1997)

The Company designs, manufactures and markets microprocessor-based personal computers and related personal computing and communicating solutions for sale primarily to **education, creative, home, business and government customers.**

# INNOVATION CULTURE: Steve Jobs leaves in 2011, and so does the phrase “creative customer”

## APPLE (2010)

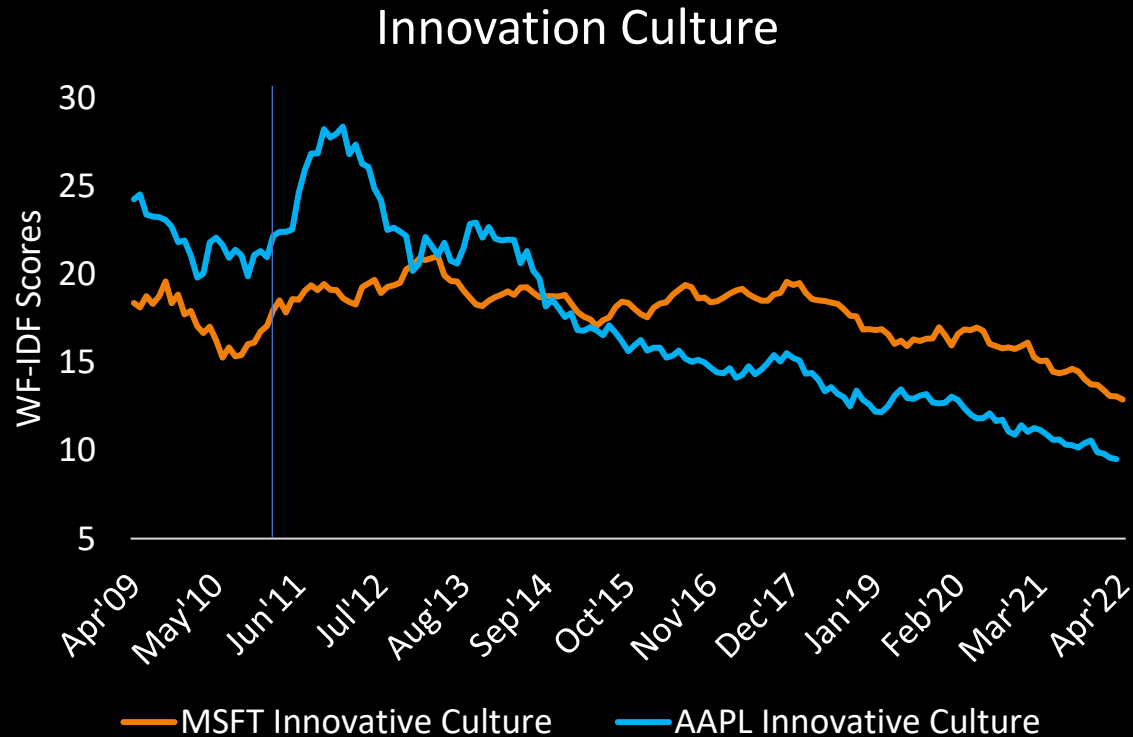
The Company sells to consumer, small and mid-sized business, education, enterprise, government and **creative markets**.

## APPLE (2011)

The Company sells to consumers, small and mid-sized businesses, education, enterprise and government customers.

# THE VALUE OF APPLIED CREATIVITY IS...

## ... 8,833% return in 13 years!



TOTAL RETURN UNDER STEVE JOBS LEADERSHIP				
From	To	AAPL	MSFT	AAPL vs. MSFT
1997	2010	8,954%	121%	8,833%

*“Innovation distinguishes between a leader and a follower.”*

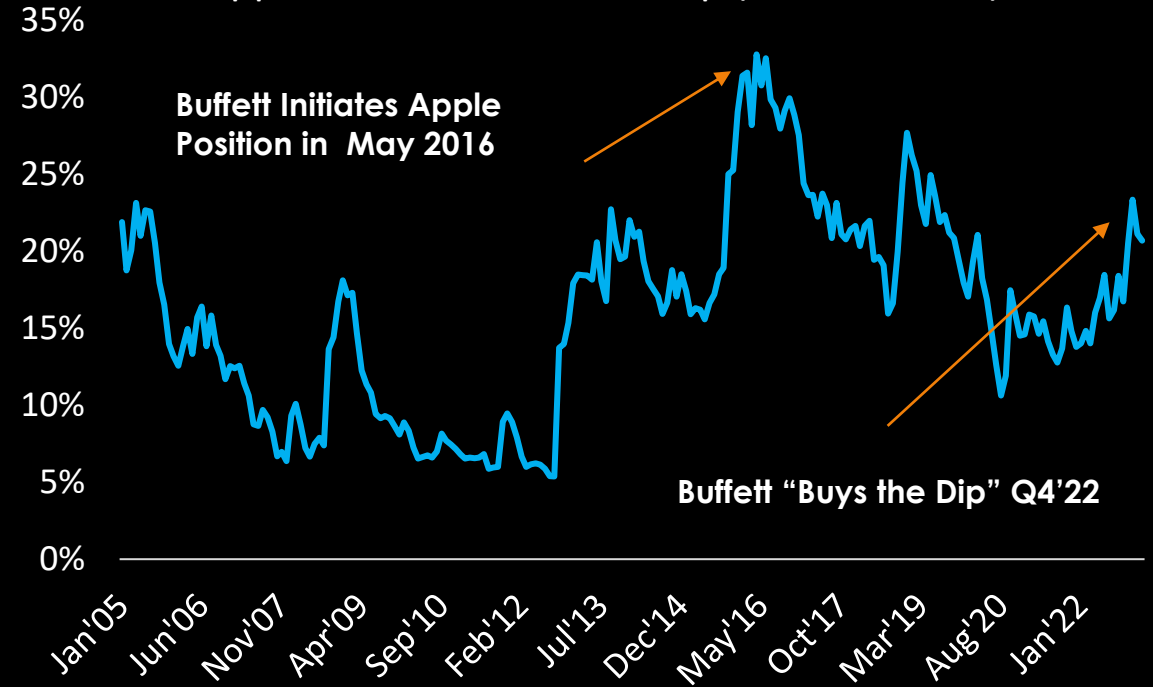
*- Steve Jobs*

# ONE OF BUFFETT'S BEST PICKS: AAPL

Quality Culture



Apple's Brand to Market Cap ("Brand Yield")



**May 2016 - March 2023**

Total Return %	526%
Annualized %	31.2%
Holding Period (yrs)	6.75
\$ Return	~108bn
% of Buffett's Portfolio	~40%

Source: CultureLine.AI, Interbrand, Koyfin, Two Centuries Investments



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# BUFFETT GETS IT...

**On intangible assets:** “Business experience produced my present strong preference for businesses that utilize a minimum of tangible assets.”

**On customer satisfaction:** “Premium rates of return are produced from a pervasive favorable reputation with consumers based upon countless pleasant experiences they have had with both product and personnel.”

**On culture:** “In looking for someone to hire, you look for three qualities: integrity, intelligence, and energy. And if they don't have the first, the other two will kill you.”

**On quality:** “Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down.”

**- Warren Buffett, Chairman and CEO of Berkshire Hathaway**

# CUSTOMER SATISFACTION AND GROWTH: Salesforce dominated CRM market. HubSpot found a way to break in

## Salesforce (2020)

Salesforce is a global leader in customer relationship management technology that brings companies and customers together.

Founded in 1999, Salesforce enables companies of every size and industry to connect with their customers in new ways...

## HubSpot (2020)

We **help** scaling companies deliver a **delightful customer experience** through our cloud-based customer relationship management platform.

Our platform...enables companies to **attract, engage, and delight customers** ...



# SAME GOAL FOR EMPLOYEES AND CUSTOMERS: *Attract, engage, delight*



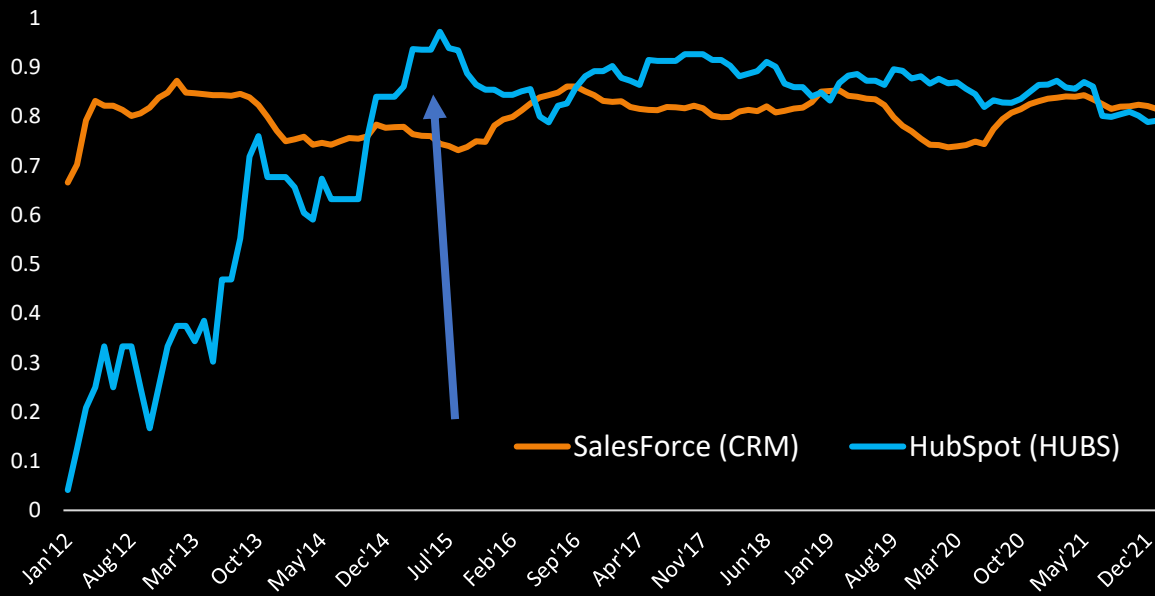
# HubSpot

“We learned long ago that in order for us to achieve our ambitions we needed to build **two products: one for our customers, and the other for our people**. This second product is what we think of as our culture. And, just like any other product development effort, building a great culture is all about getting candid feedback and iterating.”  
---- HubSpot’s co-founder and CTO Dharmesh Shah.

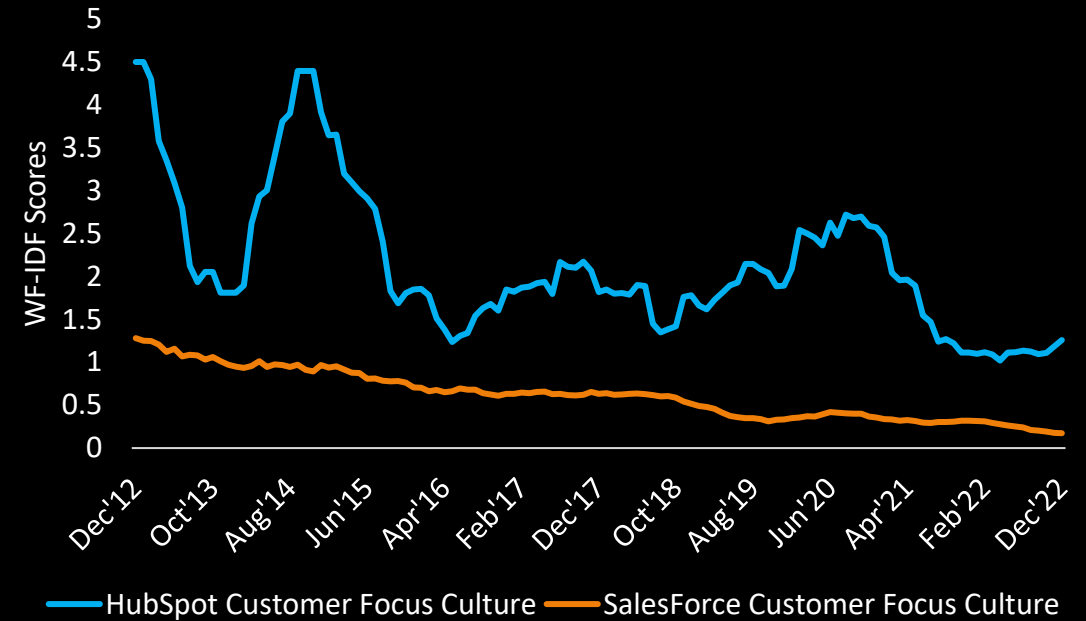
Source: HubSpot

# ENGAGED EMPLOYEES & SATISFIED CUSTOMERS

## CEO Employee Approval



## Customer Focus Culture



# THE VALUE OF CUSTOMER SATISFACTION IS...

## ... 1,507% return in less than 7 years!

SALES GROWTH				
From	To	HUBS	CRM	HUBS vs. CRM
2014	2021	1,288%	453%	835%

HUBS - HubSpot  
CRM - Salesforce

TOTAL RETURN				
From	To	HUBS	CRM	HUBS vs. CRM
2014	2021	1,821%	315%	1,507%

Source: Global Financial Data, Two Centuries Investments

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# DYNAMIC INTANGIBLES

Exhibit 6. Trend Analysis of ESG Issues

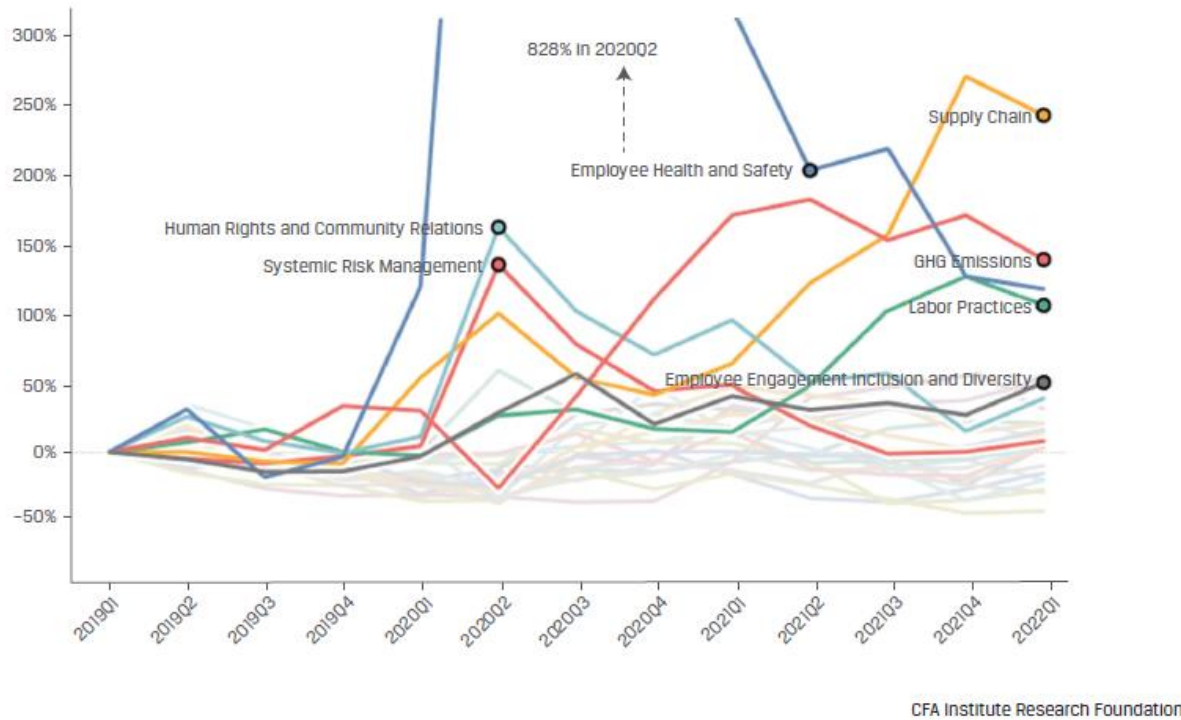
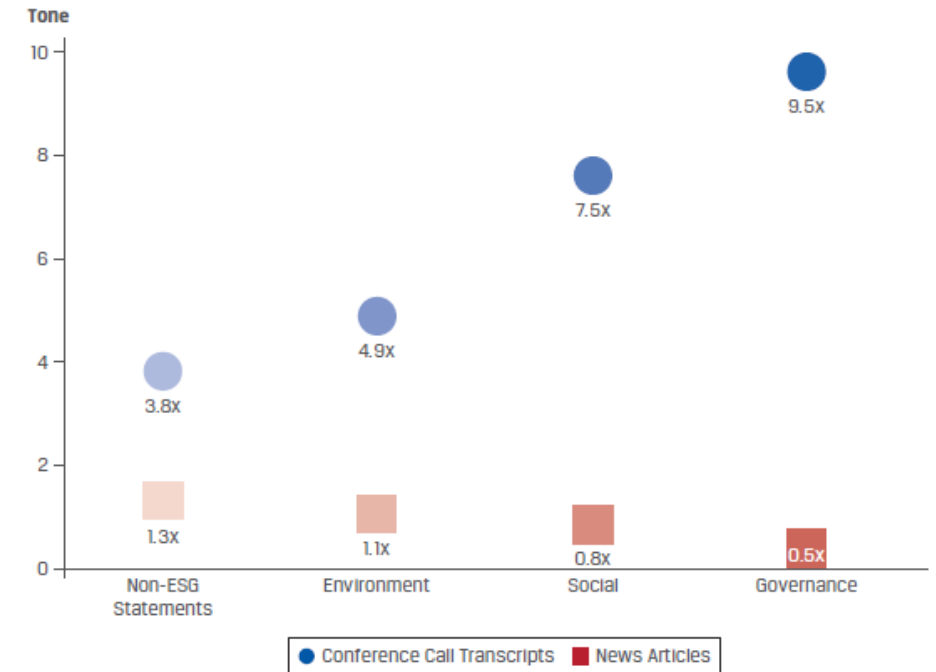


Exhibit 16. Comparison of Tone between Conference Calls and News across Varying ESG Topics



Source: Sansani, Samonov (2023) - Handbook of Artificial Intelligence and Big Data Applications in Investments, CFA Institute Research Foundation – Upcoming March 2023

# ACCOUNTING STANDARDS Are Behind the Curve

Expenditure for an intangible item is recognized as an expense, unless the item meets the definition of an intangible asset, and:

- it is probable that there will be future economic benefits from the asset; and
- the **cost** of the asset can be **reliably** measured..”

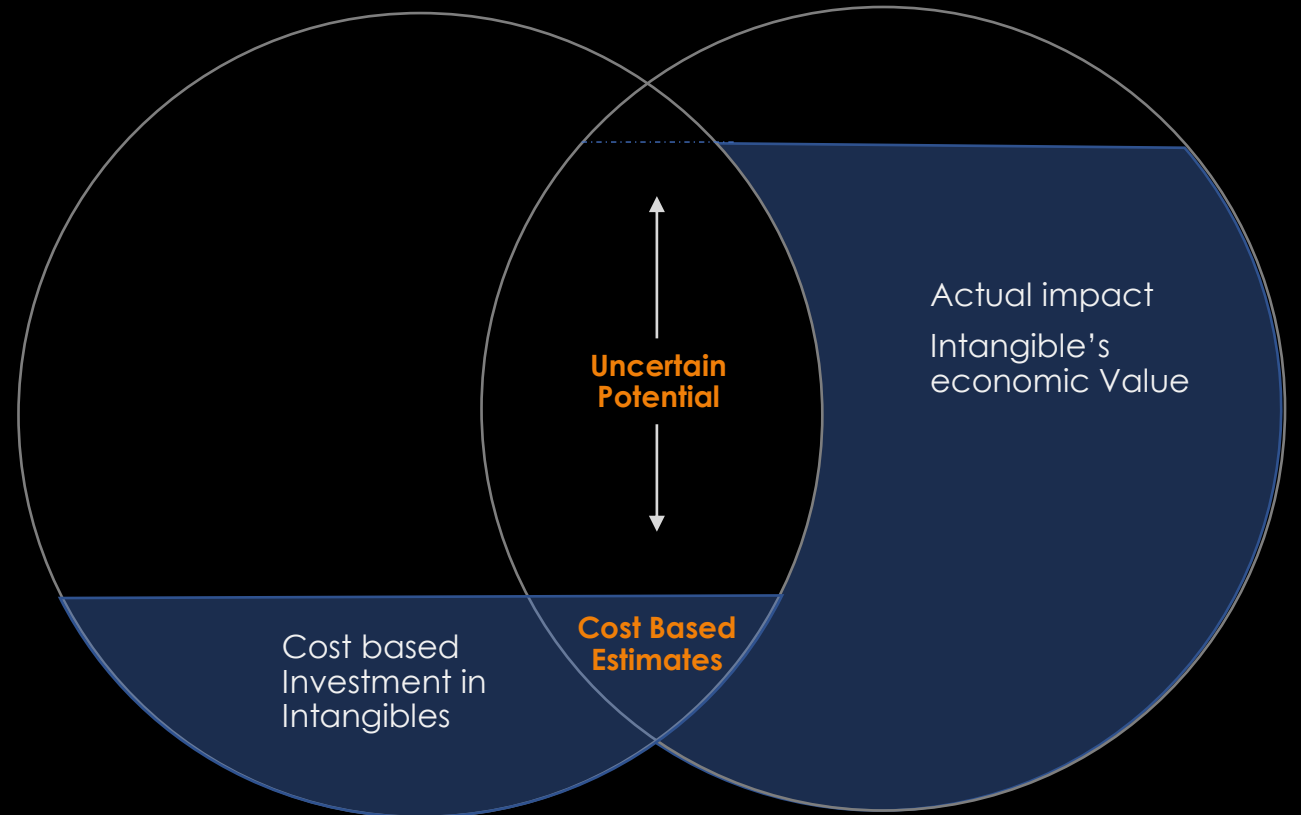
- IAS 38, IFRS.ORG

# HOW TO MEASURE

## Cost vs Value

Tangible assets values have a tighter relationship with costs,

Intangibles, however, exhibit a weaker relationship between market value and costs



# CONCLUSION: IT'S ACTUALLY A **GREAT TIME** to be an active investor

## **Access to New Data**

Exciting opportunities to quantify and implement unique ideas

## **Cloud-Based Technologies**

Streamline limitless computational resources to focus on real differentiators

## **Open-Source & 3<sup>rd</sup> Party Frameworks**

Stand on the shoulders of technical giants while adding your own perspective

## **Slow-to-Change Industry**

Opportunities for creative disruption

## **Increasing Management Capability**

Tangible benefits from investing in human capital and creative thinking

## Me - Please describe Intangibles Investing

ChatGPT - Intangibles investing refers to the strategy of investing in companies that have a strong focus on intangible assets, such as patents, trademarks, brands, customer relationships, and intellectual property. These intangible assets are often the key drivers of a company's long-term success and can provide a competitive advantage that is difficult for competitors to replicate.

FIND OUT MORE:

[www.twocenturies.com](http://www.twocenturies.com)

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Investing in intangibles factors involves identifying and selecting companies that have a high proportion of intangible assets relative to their total assets, and that have a history of investing in and developing their intangible assets. This approach recognizes that intangible assets can provide significant value to a company, but are often overlooked or undervalued by traditional financial metrics.

Some of the key benefits of investing in intangibles factors include the potential for higher long-term returns, as companies with strong intangible assets are often able to generate sustainable competitive advantages and achieve higher growth rates. Additionally, these companies may be better able to weather economic downturns and market volatility, as their intangible assets can provide a degree of stability and resilience.

However, investing in intangibles factors also comes with its own risks and challenges. For example, intangible assets can be difficult to quantify and value, and may be subject to legal or regulatory risks. As such, investors in this space must be diligent in their research and analysis, and may need to develop specialized expertise in order to effectively evaluate companies based on their intangible assets - 3/1/2023.