



Second Quarter 2021 Update

July 9th, 2021

The NZS Capital Growth Equity strategy had a gross return of 7.58% in the second quarter of 2021 compared to its global market index benchmark, which was up 7.21%. Year to date, the strategy has returned 14.97% compared to the benchmark's 12.34%. The NZS Capital Select strategy returned 7.50% gross in the second quarter of 2021 and 19.73% year to date. The table below contains the performance for the three NZS Capital strategies.

Q2 2021
Through June 30, 2021

	NZS Growth Equity				NZS Select				NZS Technology			
	Q2 2021	YTD	LTM	SI *	Q2 2021	YTD	LTM	SI *	Q2 2021	YTD	LTM	SI *
Gross Strategy Return	7.58%	14.97%	62.75%	52.32%	7.50%	19.73%	74.06%	58.77%	9.00%	14.74%	60.47%	89.64%
Net of Fees	7.41%	14.61%	61.72%	51.33%	7.34%	19.36%	72.96%	57.74%	8.83%	14.37%	59.44%	88.44%
Index Return**	7.21%	12.34%	39.16%	19.19%	7.21%	12.34%	39.16%	19.19%	9.04%	12.83%	44.99%	62.82%

* Inception for Growth Equity and Select is 12/31/19. Inception for Global Tech is 3/31/20. Returns greater than one year are annualized.

** For Growth and Select, Morningstar Global Target Market Exposure NR USD. For Tech, Morningstar Global Technology and Communication Services NR USD.

The research process at NZS Capital is always guided by the unpredictability of the world around us. Our lens on the world, which does not rely on narrow predictions of the future, is ideally suited for long-term investors as the global economy transitions from analog to digital. We believe companies that maximize non-zero-sum outcomes for all of their constituents, including employees, customers, suppliers, society, and the environment, will also maximize long-term outcomes for investors. These adaptable businesses will take share as the economy continues its decades long transition from analog to digital, sector by sector. Our view of the world informs our portfolio construction process, which combines a relatively small number of Resilient companies (larger positions) with a long tail of Optionality companies (smaller positions). Resilient businesses have very few predictions underpinning their success and a narrow range of outcomes, while Optionality businesses have a wider range of outcomes and their success hinges upon a more specific view of the future playing out. This combination of long-duration growth and asymmetric upside is well suited to navigating the increasing pace of change throughout the global economy.

Performance Discussion

The following second quarter 2021 performance discussion references the NZS Growth Equity strategy. Information technology remained our largest weighting at 56.22%. Our technology investments were up 8.52%, ahead of the benchmark return of 7.21%; however, our technology holdings underperformed the technology component of the benchmark, which rose 10.59% in the quarter. This was in part due to underperformance in our software and semiconductor investments. Specific stocks that contributed strongly to second quarter performance include Nvidia, Cloudflare, Salesforce, T-Mobile, Microsoft, Shopify, and Constellation. Healthcare and energy, which are relatively underrepresented in our portfolio currently, outperformed the broader benchmark in the period. We believe the rotation into more value-oriented sectors so far in 2021 will be a short term phenomenon, and we therefore remain focused on the long-term transition of the economy to the Information Age where adaptable companies that are

creating the most non-zero-sum outcomes will do well. Specific detractors from performance in the quarter included Nexon, Ball Corp, Walt Disney, Nexterra, Workday, Thor, and a handful of semiconductor companies such as Microchip, Micron, On Semi, and KLA Corp. We continue to see semiconductors as the long-term, global engine for the digital economic transition.

Time Travel to Make Better Decisions

The following is adapted from an essay titled “Time Travel to Make Better Decisions” published on July 4th, 2021. The complete essay can be found [here](#).

Every time we contemplate a decision, whether big or small, we are attempting to see into the future. In other words, the act of scrutinizing options and possible outcomes is a form of mental time travel. Can we see how this decision will play out? What are the odds we make the right decision? And, the single most important (and emotional) question: *will I regret this decision?!?* If I could somehow communicate with my future (and ostensibly more knowledgeable) self, what would I want to know now to make the right decision today? The idea of mental time travel is especially relevant to investment decisions, a topic that I’ll return to later in this essay.

Despite wanting to make better decisions and predictions, **we are constantly stymied by the fact that the future is largely unknowable and becomes more opaque the farther into it we attempt to peer.** We know from [complex adaptive systems](#) that there are too many factors, agents, and relationships to know precise details of the future state of the Universe with any meaningful degree of accuracy – chaos ensures we’re always betting against the house. As such, we all have rather spotty decision-making track records. And yet, we tend to think that we’re pretty good decision makers, largely thanks to our brain’s serial overconfidence (perhaps our survival as a species is predicated on having a heightened sense of control, however false, over the unknown). In reality, luck factors into our successes far more prominently than our brain wants to admit.

One of the biggest inhibitors of good decision making is our brain’s inability to see things as nonlinear. We tend to think in an analog, incremental way, but the world itself is dominated by exponentials, power laws, and compounding – all of which we struggle to conceptualize. From an evolutionary perspective, linear thinking is likely a lot more energy efficient and less mentally overwhelming, which would be important for quick decision making to ensure day-by-day survival, as was required of our human ancestors for hundreds of thousands of years. Under such challenging circumstances, linear thinking apparently yielded a decent enough solution in a sufficient number of cases to let us wade through life (while the slower, more cerebrally-intensive thinkers were perhaps subject to a higher number of predation events). For those of us fortunate enough to exist in the modern world, however, we have the luxury (or perhaps the imperative) to become more cognizant of our path through time and the myriad possibilities/probabilities encompassed by our endlessly branching future.

The path we took through time to get to the present moment and which we will follow into the future is only one of an infinite number of possibilities. Existentially, our narrow slice of the multiverse is the only path we can travel simply because it *is* the path we travel.

One popular (and one of my favorite) movie/literary genres concerns time travel and the speed of time passing. These stories are a trove of insight into decision making, regret, and the folly of trying to change the past or predict the future. **I think our cultural fascination with time travel boils down to our own regret over how little we confront the actual present, and, more specifically, how we often fail to be fully aware and present when we make decisions. What I’ve learned is that having a fascination**

with the present moment might be the only way to make better decisions about the future. As Russell Ackoff puts it: *“I have no interest in forecasting the future, only in creating it by acting appropriately in the [present](#).”*

Better Decisions through Time Manipulation and Mental Time Travel

Poet David Whyte asks the following questions: ***“What would it be like to start a conversation with myself that my future self would thank me for? What would it be like to become the saintly ancestor of my future happiness?”*** Oftentimes it’s not the answers we are looking for, but the right questions to ask. How can we converse with ourselves today in a way that we ask better questions and arrive at better decisions? There are a few exercises that I find helpful, including a few specific conversations we have at NZS Capital when we are analyzing companies.

Slow down time: Try and spot the figurative gravity wells and light speed hacks that **allow your clock’s gears to turn more slowly than others’, which will create a huge advantage in decision making.** This entails figuring out how you should be spending your time so that you are asking the right questions, glean the most useful information, and giving yourself time to analyze, digest, and connect dots. If reading the news or scrolling social media is not causing you to ask better questions, or if it’s pulling you out of your awareness of the present, then stop – it’s needlessly spinning your gears and speeding up time. Remember to **focus on intentions**. Focus on your awareness of the present and being extremely intentional about what you want to accomplish, and you will find you can achieve more in less time.

Focus on what won’t change: We often reference this concept from Jeff Bezos who famously said his primary focus at Amazon was on what won’t change: people will always want more selection, lower prices, and faster delivery. Rather than focus on the competition, Amazon tried to continue to improve on these three dynamics of their ecommerce business. While we spend a lot of our time desiring to know what will change when we make decisions, often inverting the problem and seeing what is unlikely to change is more useful. So, fast forward through time or imagine an array of different multiverses. **What remains invariant despite changing time/space and the unpredictable future paths?**

Perform pre-mortems: This exercise helps you **determine what could go wrong before it happens.** A pre-mortem is a way to try and picture yourself in the future and work backward to decisions made today. It’s similar in concept to Jeff Bezos’ regret minimization **framework**: *“I wanted to project myself forward to age 80 and say, ‘Okay, now I’m looking back on my life. I want to have minimized the number of regrets I have.’”* We do pre-mortems for every stock we consider investing in by transporting ourselves into the future and trying to guess at the answers in these scenarios: 1) We didn’t buy enough. Why? What questions/data would have clarified our understanding of the potential? And, 2) We should not have bought it. Why did we? What did we miss about the range of outcomes, the degree of predictions forced by the valuation, etc.? Similarly, if we are contemplating selling a stock, we try to answer these questions as our future selves: 1) We regretted selling it and ended up buying it back at a higher price. Why? And, 2) We never regretted selling. What negatives were there that we were right about? Often, the question isn’t about buying or selling outright, but getting to the truth of what position size an investment should be. We use specific metrics from our **[Complexity Investing paper](#)** to answer these pre-mortem questions in the categories of Quality, Growth, and Context (chapter 3) and Resilient or Optionality position sizes (chapter 6).

This exercise may sound simplistic and obvious, but **the key is to make time travel feel as real as possible to fully experience the thoughts and emotions of your future self.** Making mistakes in

investing (and life in general) is personal and painful – it’s a gut punch of regret. So, we try to literally vault ourselves into the future and see what it feels like to be selling a stock at a major loss – it’s a horrible feeling, how could we have avoided it? **The answer can only be in the present. What information are we missing today, or, more likely, what questions are we failing to ask?** What is it about the range of outcomes that we need to better grasp? Imagine you have an actual time machine to travel five years into the future. Imagine which path you took through time to get there and which ones you avoided.

The Importance of Awareness

One of the most freeing concepts that can improve decision making is: it’s worthless to dwell on regret because there’s no going back. Whatever happened, happened, and it’s now permanently out of your control. So, take a few moments to learn what you can about the factors that influenced your decision and then put it out of your mind. **There are thousands of factors that can play into decisions over which you have no control.** Neuroscientist Robert Sapolsky shares some devastatingly great insights on this concept in his book *Behave*. Here is a passage listing just a few of the unconscious influences on decision making: *“blood glucose levels; the socioeconomic status of your family of birth; a concussive head injury; sleep quality and quantity; prenatal environment; stress and glucocorticoid levels; whether you’re in pain; if you have Parkinson’s disease and which medication you’ve been prescribed; perinatal hypoxia; your Dopamine D4 receptor gene variant; if you have had a stroke in your frontal cortex; if you suffered childhood abuse; how much cognitive load you’ve borne in the last few minutes; your MAO-A gene variant; if you’re infected with a particular parasite; if you have the gene for Huntington’s disease; lead levels in your tap water when you were a kid; if you live in an individualist or collectivist culture; if you’re a heterosexual male and there’s an attractive woman around; if you’ve been smelling the sweat of someone who is frightened. On and on. Of all the stances of mitigated free will, the one that assigns aptitude to biology and effort to free will, or impulse to biology and resisting to free will, is the most pernicious and destructive.”* (p. 597-598). So, **focus on what you can control – your awareness of the present – to create a better backdrop for decision making, and then try not to regret decisions as soon as they are relegated to the immutable past.**

Conclusion

Making decisions involves a paradox: we desire to see into a future that we can never truly know. It would be nice if reading (or, in my case, writing) this essay were sufficient to erase the longing to travel back in time to fix decisions and instantly transport forward to see the future. I’m afraid these paradoxes cannot be resolved. Instead, I hope that I’ve made the case for **cultivating awareness in the present, which should ease the dual burdens of decision remorse and wanting to know the unknowable/predict the unpredictable.** While we can harness deliberate and intentional mental time travel to our advantage, as with my example of the pre-mortem, our obsession with the impossible is just a mental trap that drains energy and shifts our attention away from the present. And, **the actual present is our only window of opportunity to make decisions that positively shape the future.** By cultivating awareness, trying to slow down time, and finding the right questions to ask (e.g., working backward, what *won’t* change, pre-mortem analysis) we can attempt to **create a landscape for decision making that allows us to see good fortune when it comes knocking** and take the next incremental step toward a better future. Since we can never know the future, perhaps it’s best to take Doc Brown’s advice: *“Roads? Where We’re Going, We Don’t Need Roads.”*

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