HYPERION
ASSET MANAGEMENT

Hyperion Webinar Questions and Answers

Q: Can you describe your screening process (the metrics) to determine your investible universe and the process used to tactically move in and out of stocks when they are individually over or undervalued? As examples, revenue growth, total addressable markets ("TAM"), forecast internal rates of return ("IRR"), growth rates/persistence, cashflows…?

- Regarding stock selection, we look for modern businesses with strong value propositions that can grow revenues and profits organically at double-digit rates. To us, it makes long-term economic sense to be selective and manage a concentrated portfolio of stocks and not be exposed to a wide number of average to below average quality businesses that comprise most indices and benchmarks.

- We focus on the long-term earnings outlook of modern and quality businesses rather than recent share price trajectory. Characteristics such as free cash flow, low debt levels, a sustainable business model and quality management are key factors which we consider.

- This sets us apart from traditional value investors who focus primarily on historical accounting-based data and short-term forecasts to direct their investment decisions. These investors use metrics that are short-term in nature and are primarily based on backward looking accounting data. These include metrics such as below average P/E, P/B, EV/Sales Ratios and/or above average dividend yield.

- The best businesses normally appear expensive on short-term earnings metrics and generally, as a rule, the closer an investor moves towards investing in average or below average quality businesses the more important short-term trading metrics like a relatively low P/E Ratio become.

Q: While selecting businesses for the portfolio, outside all tangible statistical calculations, filters, processes - how much importance do you give to conviction?

- We believe investment firms should be led by investment team members that believe and have conviction in the value of the investment decision making framework and the market inefficiencies that are being exploited.

- Conviction based on fundamentals is important because if market participants do not have a good understanding of the underlying economics and intrinsic value of the company, they are more likely to be forced out of the stock at an inopportune time.

Q: How do you value Tesla's TAM on a 10 year plus horizon?

- We believe the TAM for Tesla is at least 20 trillion across energy, ride sharing and auto-manufacturing. We think Tesla is mis-classified because it's much more than just an auto business – this is just where it started. It's a battery tech business, it's a software business, it's a hardcore engineering business, it's a computer hardware company and manufactures the machines which makes the cars and batteries. We think the business has substantial growth over the next 20 years.

Q: Would you be able to comment on whether investors should avoid smaller companies in the current market?

- We believe there are many industries set to be disrupted over the next ten years and as the world continues down the path of globalisation, we will see an increased concentration of power, shifting from regional players to global. This puts downward pressure on profits as the level of global competitiveness increases. This means there are fewer winners and more losers.

- While it is dependent on industry and the underlying economics of each business, we believe many companies within the small business sector do not have the sustainable competitive advantages and strong value propositions required to deliver double-digit earnings per share growth which is needed for inclusion within our portfolios.

Q: are traditional infrastructure stocks like Telecom stocks worth investing right now given the discounted valuation at the moment?

- In a low growth, disrupted economic environment where most average quality businesses cannot grow their sales and EPS, many beaten-down stocks become value traps. The only long-term winners in a disrupted low growth world are the disruptors themselves.

- We like new-world companies and believe that the mix of profits across the business sector is likely to change over time with modern businesses with strong value propositions and innovative cultures taking market share from the traditional, structurally challenged businesses.

- Investors should be aware of disruption**;** especially as disruptive forces continue accelerating and expanding their financial impact on traditional businesses across most key industries and sectors – telecommunication companies included.

Q: Australian Growth vs Global Growth fund. What does the future hold for both and do you have suggestions for balancing between the 2 funds?

- We think the return profile for both funds but particularly the Global Growth Fund are attractive at the moment.

Q: Did many of the concept tech firms actually become established

- The tech businesses which we have in our portfolios are no longer just concept stocks – they have proven business models and are structural growth leaders.
- We think the technology leaders today are different from the technology stocks from 1999/2000 - many of which did not become established. We weren't invested in these companies as we need to see proof of profitability before we invest any capital.

Q: How can some of the tech stocks which don't deliver profits be valued so highly? Afterpay as an example. Morningstar has it valued at $38

- Some of these technology companies, like Afterpay and Tesla, are disrupting very large industries with a lot of revenue up for grabs. For example, most people only look at Tesla as a car manufacturer however it is much more than this – it is a software provider and an energy company as well.
- For Afterpay, it has 3.5 million consumers here and 10 million globally. The business therefore has substantial influence over where consumers shop - this is something of extreme value with a network effect. We also think market leadership is important and Afterpay designed the category.

Q: Please comment generally on the valuations of in the companies in the portfolios. Multiples are high, will they fall over time, can growth support these valuations?

- In our view, the short-term PE of a structural growth stock is not a good predictor of future returns. What is important is being able to work out what the approximate estimated earnings of a company will be in 10 years' time. It is all about undertaking the qualitative analysis which can really reveal whether a stock is just an average company or a structural leader.
- We take a long-term view on the market and we see ourselves as business owners. Timing the market is impossible but if you can ride out short periods of underperformance, then over the long-term, you will likely do well if you are invested in structural growth leaders.

Q: What makes Hyperion Global similar to Nasdaq 100 index?

- We are a high conviction manager and hold anywhere between 15-30 stocks in the portfolio. We do have a large weighting towards modern and new-world businesses.

- We take a long-term view on the market and we see ourselves as business owners. Timing the market is impossible but if you can ride out short periods of underperformance, then over the long-term, you will likely do well if you are invested in structural growth leaders.