Mark Yockey on Keeping It Simple and Focusing on What Matters

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Artisan Partners Global Equity Team portfolio manager Mark Yockey and CEO Eric Colson recently sat down for an exclusive conversation about Mark's pursuit of exceptional companies with unique value propositions over the course of the Artisan Global Equity Strategy's 10 years.

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The investing environment is obviously currently very interesting—what are some of the exciting areas to you right now?

Mark Yockey: Energy efficiency is a long-term theme that interests us, and we think climate change is a big deal going forward. Buildings generate roughly 40% of global greenhouse gases, and a large percentage of that is for heating and cooling. We think most of the world will want to upgrade HVAC systems to more energy-efficient models. Companies that make energy-efficient heat pumps and companies involved in renewable energy also interest us on a long-term basis. Among the biggest producers of methane gas in the world are cows. We hold a Netherlands-based company that has developed a pill for cows that reduces the amount of methane gas they produce by 30% to 50%. Innovation that offers real solutions like this has the potential to drive growth over the long term, and that's what we look for in an investment.

There are also a lot of advances in health care we find exciting—such as a life-sciences tools company that has a blood test for early cancer detection. The test has the potential to disrupt the oncology market. Using a simple blood draw, the test can detect multiple cancers before patients are symptomatic and their cancer has metastasized—helping diagnose patients in earlier stages with the highest probability of successful treatment and survival. This is a large market opportunity that we estimate is over $30 billion in the US alone.

Do you see the digitalization and e-commerce themes continuing?

Mark Yockey: Absolutely. Digitalization is probably going to have as big an impact on the world as the invention of the car back in the 1900s. All these trends have been accelerated by the current health crisis. Business travel, we believe, is going to be significantly diminished from what it would have been otherwise. People are going to go about how they do business in a much different way than before. For instance, in Manhattan right now—and you could replace Manhattan with virtually any big city in the world—there's only about one in six people going to the office, and the rest of the people are working from home. It's good that we've all been able to adapt so quickly. E-commerce is part of that, as are all the different services and businesses that are flourishing because of digitalization. We only expect more of that to happen going forward. So, we think digitalization is a huge deal.

What are some of the big themes looking forward in health care?

Mark Yockey: Health care is really exciting, and the US is really good at it. Part of the reason is the US spends a lot more money on it than anybody else does. The result of that is really good technology, and the US leads the world in advances in a lot of different sectors within health care. In biopharma, we're attracted to companies that provide contract manufacturing and development services. These companies offer access to the growth of biotechnology R&D, while helping minimize the volatility that can come with concentrating exposure in product biotech companies. Another example where drug development risk is lessened is Danish biopharmaceuticals company Ascendis Pharma. The company utilizes its TransCon™

technology to develop drugs that provide for the predictable and sustained release of an unmodified parent drug, thereby improving the drug's effect on patients. Since this technology is applied to proven drug targets, development risk is lower compared to other biotech companies.

In biotech, where companies operate in different development stages, how do you build conviction in these names?

Mark Yockey: We try to take as much risk out of the process as we can. We'd much prefer to invest in companies that have a product either on the market or a product that has been de-risked, so it's virtually approved. Our aim is taking out the risk involved in investing in a venture-stage company. We typically get involved when it's in late-stage two, stage three or has been approved. It doesn't always work—sometimes there are disappointments—but by and large, we believe it's a great way to get involved before the market fully values a company.

You seem to keep it quite simple. How do you take what may be complex and boil it down to what matters?

Mark Yockey: The main question we ask is: Is it a good business capable of generating high returns over a long period of time? Commodities-related businesses typically generate commodities-like rates of return over time, whereas high value-added companies with unique intellectual property or business processes can be successful on a long-term basis. The essence is focusing on what allows the company to be successful. What are they doing differently from other people? We look for exceptional companies that we think offer products and services not easily replicated by other companies. If you're doing something different and unique, we find you're often able to charge a premium for it—and companies that can charge a premium tend to be more profitable.

We have a deep research team of experienced analysts, with offices in New York, San Francisco, Singapore and London. Having team members in different parts of the world helps us better understand individual markets and scour the opportunity set for the best growth ideas wherever they exist. Ideas come to us in a few ways. We read a lot. We also have great networks in the marketplace—we're constantly talking to people in business and industry and in government. And up until the last year, we would travel and visit companies. Hopefully we'll get back to doing that soon. But in the meantime, we'll use Zoom and all the other different ways of communicating.

Regarding portfolio construction, how do you think about position sizing and risk management?

Mark Yockey: As you might expect, the biggest holdings are the ones where we have the most conviction. It doesn't mean they're always the ones that go up the most—but if we're doing our job, they hopefully are sometimes. We also look to capitalize on opportunities when other investors are negative—which allows us to build our positions at better prices. We were able to do this when stocks were under so much COVID-related pressure in the spring—and we were able to add some good companies that were a little bit smaller than we might have otherwise invested in.

With the rise of quantitative investing, it's really become evident that the amount of available information and data is massive. How do you manage your time reading and researching and managing your sources of information?

Mark Yockey: Oh, that's impossible to answer. We just read until we can't read anymore, I guess—until it's time for dinner. I think the important thing is to have a deep understanding of certain subjects. You don't want to know just a little bit about a lot—you want to know a lot about what you're invested in. It helps to focus on areas of the world's economy we think are going to offer value and growth going forward; areas like biotech, energy efficiency that we touched on, companies in the branded goods area, like Nestle, which we've owned for a long time. There are a lot of innovative technology-related companies, such as in software, e-commerce and the Internet. Companies that are truly value-added.

Some of our competitors are set up uniquely to use data, but they don't talk to companies or care what companies actually do. That's not how we approach it. We want to understand how companies operate, how they get paid and their future growth prospects. Heaven knows there's plenty of data out there for everybody to use, but I don't think data is the differentiating factor. You can use data to support your analysis, but at the end of the day, we are looking for companies with unique products and services that are not easily replicated.

Given how quickly markets move, it's easy to run the risk of riding a price up, only to then ride it back down. Can you describe your valuation and sell discipline?

Mark Yockey: A lot of growth managers are growth at *any* price, whereas we are growth at a *reasonable* price. We sell things when we think the valuation no longer reflects the underlying fundamentals. We estimate a company's growth rate and compare that to its valuation. Sometimes the growth rate accelerates; sometimes it decelerates, which is a bad thing if the stock is highly valued. We'd much rather invest in companies with stable or rising growth rates than falling growth rates. And hopefully we invest early in a company's growth so we can participate in the upside. If anything, we've been a little too cautious this year. If we'd held onto some of these companies a little longer, we probably would have done better. But having done this for a while, sometimes being a little cautious is not a bad thing.

You've invested across various market cycles and crisis periods, such as the TMT bubble and the global financial crisis. And over the course of the Global Equity Strategy's 10 years, there has been the euro crisis, Brexit and now the COVID-19 pandemic. How have you been able to navigate these market cycles?

Mark Yockey: I think the important thing is not drinking too much of the Kool-Aid, and when things get overvalued, not being afraid to take some money off the table. At different points in different economic cycles, certain parts of the market can become overvalued. Being willing to step back when everybody gets excited about something can really help over the long term because it means you're less likely to get crushed in a bear market. That's what we try to do.

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