

Build on What Is Solid

Adam McGrane,
Portfolio Manager

Throughout 2020, we have been inundated with messages of how our lives and the world are changing. What's more, amid a pandemic no one predicted, many are now predicting with confidence which changes will be permanent and which will be temporary.

Far too often, investors are led to believe change and unpredictability is frightening, a risk that needs to be acted upon or diversified away. We are sold the idea that success is achieved by identifying mis-priced securities or picking the correct time to jump between investment styles or asset classes. And when unforeseeable events cause volatility, doing something often feels better than doing nothing. Unfortunately, this short-term trading approach is analogous to building a house on sand—the foundation is bound to crumble.

Allow Riverbridge to propose an alternative approach: build on what is solid.

As long-term growth investors, we have the privilege of investing in the builders, those with the vision and fortitude to create something of value, even—or perhaps especially—during periods of turbulence. And building such value requires the right people, plenty of patience, and persistence to stay the course. It requires a solid foundation combined with the flexibility to meet unexpected challenges and seize new opportunities.

For example, long before the pandemic, Teladoc was building the world's most robust telehealth platform to address the pressing issues of rising healthcare costs and a severe supply-demand physician imbalance in the United States. Still, while some version of virtual care can be traced to the 1960s, substantial changes in patient behavior had been elusive until COVID-19 necessitated rapid adoption as patients of all ages with all types of medical needs have experienced the benefits of efficient, comfortable, and cost-effective virtual care. Teladoc is a beneficiary of this shift because its leaders had the foresight to build scale and capabilities of high value to healthcare providers, payers, and patients—the ability to deliver quality care, in more flexible settings, at a substantially lower cost.

Increased digital adoption has hardly been confined to healthcare and other high-profile applications such as remote work, entertainment, and e-commerce. Businesses built on intimate customer relationships, adaptive cultures, and essential products and services have been able to help their constituents do a host of important things in new ways.

For example, Tyler Technologies has experienced an uptick in demand for its digital courts and citizen engagement tools as local governments have needed new ways to continue operations and communicate with constituents. And Ritchie Brothers, an industrial auctioneer, already had a digital platform built out which allowed the company to pivot quickly from large, in-person events to entirely digital auctions in which buyers and sellers from across the globe can now be even more efficiently connected to transact the heavy equipment that is critical to construction, agriculture, and transportation.

These companies, along with many others across the country and around the globe, have responded and adapted quickly to the evolving needs of their customers. But they did not do so by changing everything about their business overnight. Teladoc, Tyler Technologies, and Ritchie Brothers have been driving change in their marketplaces for decades. As with many growth companies, change is a constant, and more importantly, an opportunity.

A solid portfolio is built by investing for the long-term in the people and companies making a substantial and sustainable positive impact on the lives and businesses of those in their sphere of influence. No business became instantaneously successful due to the tumult of 2020—nor did any business instantaneously crumble. Companies built on innovation, flexibility, and responsiveness have continued to make progress, have found creative ways to restructure the delivery of their solutions, and have maintained their focus on long-term opportunities.

At Riverbridge, we remain committed to investing in the builders. COVID-19 is not the first or last transformational event through which our portfolio companies will navigate. We will continue to seek businesses with solid fundamentals and world-class leaders who embrace ambiguity and continue to drive progress into an unpredictable and unknowable future.

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