

How Being Generalists Leads to Stronger Portfolios

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Last quarter, [we wrote about Riverbridge's investment culture](#) and the ways that culture incentivizes behaviors we believe make our clients' portfolios stronger over the long term. In short, we seek to build an investment team with members who believe they make better decisions through collecting multiple perspectives and candid feedback from both inside and outside the organization.

Another component of our team structure and investment approach is that all members of our investment team are generalists, meaning each of us is unconstrained in our areas of research and stock selection. This approach meshes naturally with our peer review process—in which we gather a wide range of informed perspectives on prospective and existing portfolio companies—and our champion/devil's advocate decision-making approach, in which team members sharpen each other's understanding of portfolio holdings by providing their insights that span many sectors and industries.

The resulting broad lens allows each team member to continuously seek out opportunities across our entire investment universe. Through external conversations and internal discussions across all sectors, we are positioned to identify interconnectivity, such as tracking the horizontal impact of technology and innovation and the opportunities and risks they bring to seemingly unrelated sets of companies.

Because the Riverbridge investment team manages strategies from small cap to large cap, and everything in between, members are also unconstrained by the market cap size of companies they research. This keeps us abreast of how smaller companies are looking to disrupt larger established companies, while also helping us understand potential hurdles for the disruptors in displacing larger, more dominant companies. We also want to be aware when larger companies may encroach on smaller niche players.

We believe these benefits also translate into effective portfolio management, in which a generalist view enables an awareness and appreciation for a variety of business models, industries, earnings exposures, and relatability across our investment universe. By thinking beyond sector and industry classifications, we can focus on owning the companies we believe are best positioned to build superior long-term earnings power.

Riverbridge's generalist approach stands in contrast to that of sector specialists. While such specialist approaches can be successfully applied, they also come with risk. Specialists often have extensive knowledge of an industry or sector, but may lack context and awareness beyond their area of coverage which can result in blinders as industries transform.

At Riverbridge we endeavor to keep a broad perspective and accept that we cannot predict the future. In an interconnected world, new innovations and applications can have broad and unexpected impacts, and therefore, a broad set of skills and perspectives is oftentimes advantageous when dealing with complexity and unpredictability. Evolving business models, industry changes, risks, and opportunities don't happen within siloes. While some rules and boundaries might remain constant, others might change or go away. We believe remaining intellectually flexible, engaging in interdisciplinary thinking, and identifying potential connections across different disciplines are valuable tools in assessing industries, companies, and businesses models.

For example, Align Technology (ALGN), known for its Invisalign® brand, is classified as a healthcare company—but when assessing the business, it becomes evident that the company entails more than just the ability to predictably move teeth with clear aligners. In addition to building competence in material science to create an effective product, the company developed custom manufacturing processes at scale to print up to one million parts daily and developed a software and technology platform to support practices in digitizing their workflows. Finally, the company created a strong brand and a unique consumer engagement approach of which many consumer companies would be envious, which helps drive demand into practices that use the Invisalign® products. As generalists, we have an appreciation for how Align has developed and applied unique capabilities across a variety of disciplines to create a strategic market position.

At Riverbridge, we have built a process, culture, and team structure that embraces the generalist view of the world. We seek companies that understand their purpose and can identify evolving customer needs and preferences, industry changes, and new opportunities. We believe these are markers of enduring investments.

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