TRIUMPH ASSET MANAGEMENT

Teeth Out

A fang, the long, sharp, pointed tooth found in mammals, is essential for their survival. The sharp teeth are used by predatory animals, for hunting, grasping, and tearing the flesh of their pray. For sturdiness and strength, fangs have exceptionally long roots embedded within the jaw. While humans have teeth that resemble the fang, it is not considered an equivalent.
While we may have the misfortune of not having fangs, as investors, we are lucky to have our own version of FAANGs. These FAANGs, are as sharp as the flesh tearing teeth possessed by carnivores. Our FAANGs however are Facebook, Apple, Amazon, Netflix, and Google. While most fangs wear with age, these FAANGs have proven otherwise. In fact, with the latest posting of quarterly earnings from all 5 companies, they continue to grow at an exponential rate, thereby defying the law of large numbers.

Typically, in practice, as companies continue to grow, their rate of growth diminishes; However, the nature of technology platforms turns that law on its head. When a technology business achieves truly massive scale – just as all of these companies have multiple businesses that reach more than 1 billion customers – it is easier to grow by collecting additional streams of revenue from a massive installed base then it is to invent new business areas from scratch or steal customers from other companies.

Bolstered by pandemic-related shifts in consumer behavior that pushed more people to shop and work online, all of these companies have divisions as large as the bottom 450 stocks in the S&P500 index. YouTube, a subsidiary of Google, is on track to generate as much revenue this year as Netflix. Amazon's advertising business generated close to $7 billion during this past quarter alone, which is nearly 7x as much as all of Twitter. Amazon's Web Services generated more revenue in Q1 than Oracle's entire company did. Apple's gadget business generated more than $7.8 billion in sales, extensively larger than that of HP's laptop business. Apple's iPhone business, meanwhile, is truly in a class by itself—this business unit alone generated more revenues than all of Microsoft, as has been the case for years.

Despite the dominance and quality of their businesses, the FAANGs trade at relatively modest valuations. On average, their P/E multiple is only 28x with a combined earnings growth rate of 50%+. Apple, our largest position, trades at 23X 2021E EPS and grew its EPS by over 100% in its latest quarter. This past weekend, Warren Buffett addressed the valuations of these companies at his annual meeting saying, "we don't think they are crazy". He went on to further state that "interest rates are to the value of assets what gravity is to matter". In other words, lower interest rates raise the value of businesses. With cash flows that are second to none and the Federal Reserve Chairman pledging a low interest rate policy, it is our belief that these stocks must be owned.

In April, we exposed our teeth, mostly from the occasional grin. *The Fund was up 4.7% for the month and is now up 12% YTD.* Even more impressive, with currency taken into consideration, our YTD performance is significantly ahead of the S&P500 Index. YTD, the Canadian dollar has rallied nearly 3.4% against the US dollar, meaning the S&P500 is up 8% in Canadian dollars. Due to our hedging strategies, we have not suffered from this headwind. We continue to monitor the rhetoric from the Bank of Canada, as well as the Federal Reserve in order to mitigate the impact of foreign exchange.

While fangs would be advantageous, especially when chewing on a steak, as an investor I am thankful that we own the FAANGs. Unlike our incisors that have worn down with age, these FAANGs continue to grow larger as they tear through the competition. We remain constructive on all of our holdings and look forward to next month's update.

Sincerely,

Steven Tuchner, CEO

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