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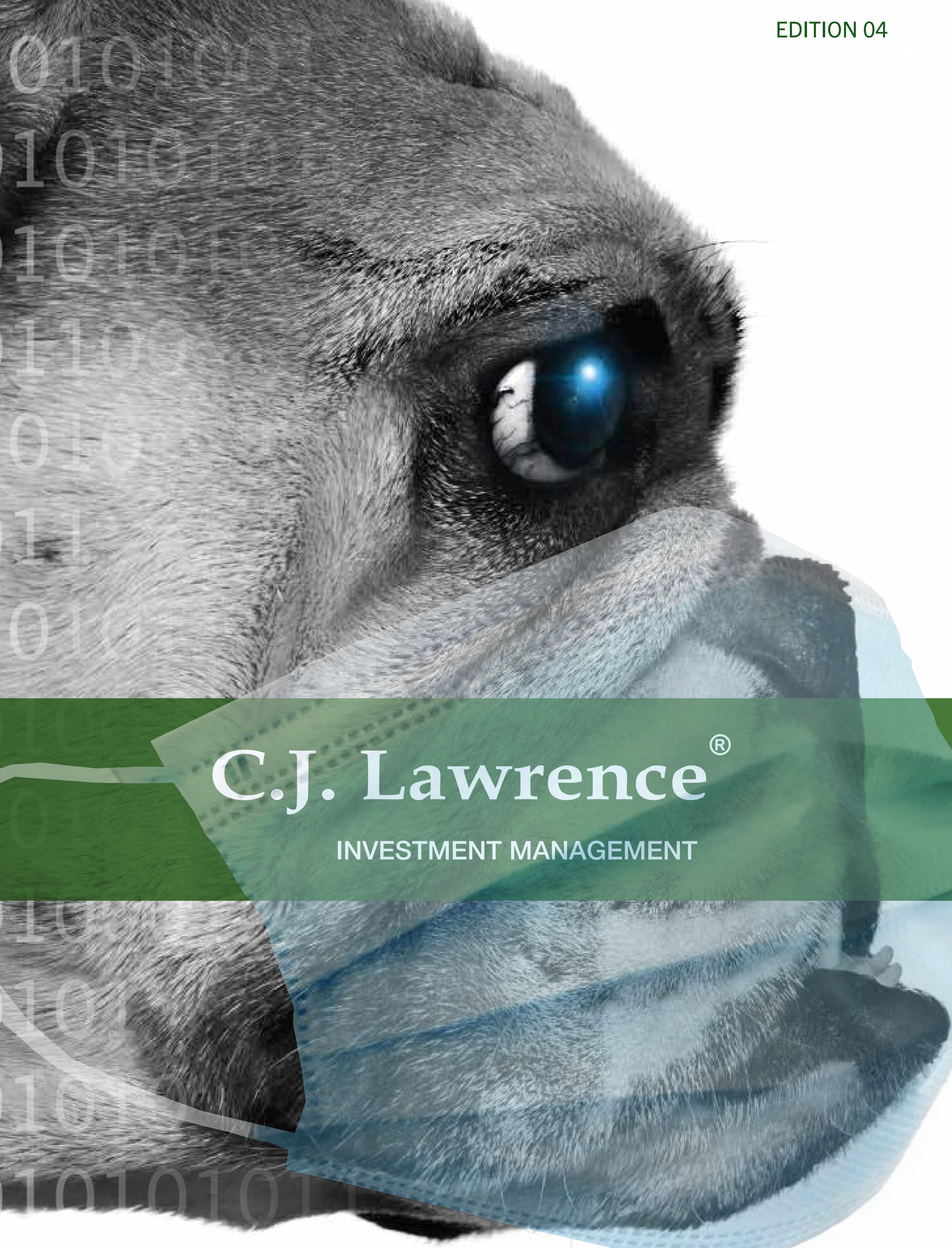

C.J. Lawrence®

INVESTMENT MANAGEMENT

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BULLDOG

EQUITY PORTFOLIOS

C.J. Lawrence

The Pedigree to Succeed

POSITION

When we first published **Buy A Bulldog** 20 years ago,

We were still living in a largely analog world. The infrastructure of today's digital economy was just being built. Then, we observed that the future long-term investment success would be influenced by investors' understanding of how pronounced changes in global competitive conditions impact equity performance. Today, in the wake of the Covid-19 pandemic, the pace of competitive change and realignment is more intense than ever. To perform successfully, companies need to demonstrate the same Bulldog characteristics we first began to identify in our investment process in the early 1990's. In the age of disruption, growth is driven by a company's ability to innovate and adapt. Our investment process continues to focus on identifying sustainable business models in growing sectors. These companies, which we call Bulldogs, have an edge and zest to succeed.

Context

As a result of the Coronavirus pandemic, we have witnessed tremendous change in the world's economies and competitive landscape. Centers of economic and political power have shifted. The traditional definition of emerging versus developed markets has become blurred. China has emerged as an economic super power and is assertive in projecting its purchasing power in everything from global trade to securing new sources for its growing demand for raw materials.

Though developed economies are still reeling from the 2020 shutdown, growth in productivity is returning along with business investment in all things digital. A large portion of the labor force remains structurally impaired. The rapid adoption of automation, which was already in place pre-Covid, has only accelerated as a result of the pandemic. The rising share of the digital economy may permanently displace a wide segment of the labor force, which could become a source of political rancor for future administrations and legislators. The push and pull of more support for pro-business policies versus support for an increasingly obsolete labor force will determine the next generations of policy makers.

The 2020 economic shutdown was the ultimate stress test for economies and business models all over the world. There has been a rethinking of global supply chains, from basic goods, such as face masks to more complex products like iPhones and semiconductors. In his 2005 book "*The World is Flat* ," Thomas Friedman described a world at the peak of globalization. It is suprising that only 15 years later we are talking about technology enabling a reversal of the globalization trend and the undoing of complex supply chains which defined our post- World War II economic discourse. In edition III of this booklet, published in October 2018, we argued that economic conditions based on zero interest rates and easy money were giving way to more traditional relationships where competition for capital would intensify. The Coronavirus pandemic and resulting shutdown reestablished easy money creating a massive supply of cheap capital to companies of size. This comes at the expense of savers and weaker business.

Fiscal policies aimed at lowering corporate taxes and embracing deregulation have also given way to programs aimed at bridging the wage gap for workers displaced by the pandemic and a need to spend on aging infrastructure. Time will tell if the ballooning fiscal deficit will affect the US Dollar and our standing in the world as a reserve currency. We remain optomistic that the on going digital transformation of the global economy, which was accelerated by the pandemic, will usher in a productivity boom similar to what we saw at the inception of the internet era in the early 90's.

Bulldogs in a New Era of Disruptive Growth

Shifting competitive forces are not new factors facing leading-edge business managers, but they are are accelerating due to the digital economy. Technologies like artificial intelligence (AI), quantum computing, and blockchain are driving what Professor Klaus Schwab, Founder and Executive Chairman of the World Economic Forum, has called the Fourth Industrial Revolution. The evidence of dramatic change is all around us and it's happening at exponential speed. AI is ushering in an era of product and service growth that exploits enormous cloud-based data sets.

A study published by McKinsey & Company in September 2018, titled"**Notes from the** Frontier, Modeling the Impact of AI on the World Economy,"shows that around 70% of companies in its study adopt at least one type of AI technology by 2030, and less than half of large companies may be using the full range of AI technologies across their organizations. The study concludes that AI could potentially deliver additional economic output of around $13 trillion by 2030, boosting global GDP by about 1.2% per year. This is a meaningful shift in economic activity and could usher in another long wave of disruptive growth even without considering the effects of the current pandemic.

Disruption is not a new phenomenon facing today's business leaders. In the early 1920s, Russian Economist Nikolai Kondratiev developed the concept of the long wave when applying technological change to traditional economic cycles. He observed that these periods of long waves can range from forty to sixty years and consist of alternating intervals between high sectoral growth and intervals of relatively slow growth. There is much disagreement among economists how these long waves affect economic growth and when. There is, however, no disagreement that the bunching of several innovations at a time, as seen during the pandemic, results in profound socioeconomic change and alters competitive conditions.

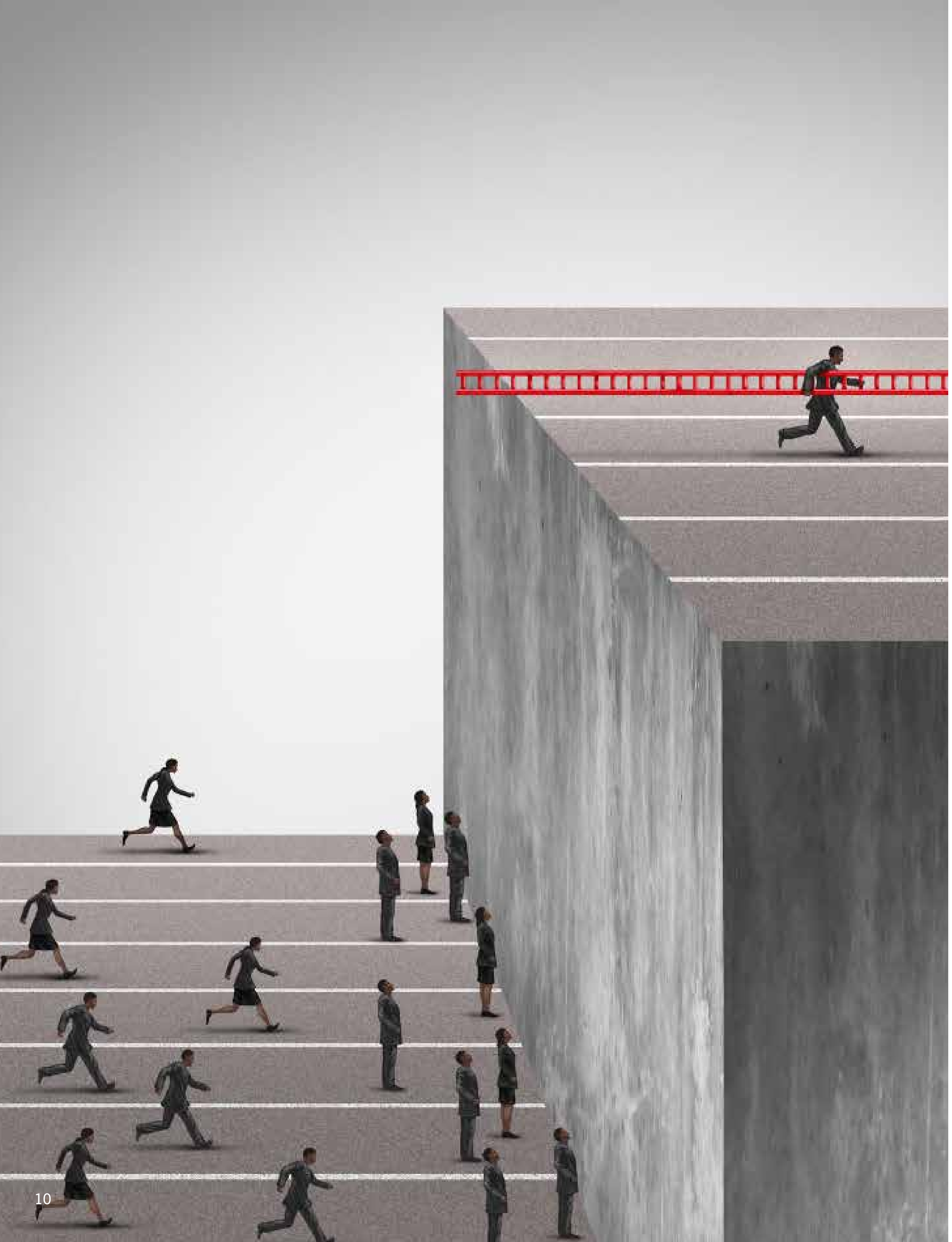
The adoption of AI will also widen performance gaps between countries, companies and even workers. According to the McKinsey & Co. study. 'AI leaders' will emerge and may accrue an additional 20-25% of potential economic benefit compared with today. How companies choose to embrace new technologies will determine the success of our future Bulldogs. The challenge for us as portfolio managers is to invest in companies that can manage through these changes and continue to provide sustainable stock growth over time.

Driving Unit Growth in the Digital Era

Successful companies adapt quickly and approach new competitive threats with a “no holds barred” attitude towards taking market share. Shares of companies that exploit sustainable competitive advantages are ultimately rewarded by equity market participants and carry premium valuations. An important characteristic of the current business cycle is the inability of companies to raise prices. In a web-based, sharing-economy where many services are freely available on smartphones, it is difficult to compete on price alone unit growth becomes the goal of successful companies.

Cutting-edge multinational business managers have therefore adopted a new and highly disciplined modus operandi. This is particularly true in high tech business, but can increasingly be discerned in more prosaic product firms as well. Their mission is to persistently offer the customer enhanced value. That is best achieved by obsolescing existing product or providing more economic value per dollar with a new product, and in the process, taking market share. Today’s corporate Bulldog operates as though wage and price controls are in effect. The only way to grow is to innovate and focus on penetrating new markets.

With market share dominance, companies gain the leverage to control competitive conditions. Business theorists have labeled it “the school of increasing returns.” The thesis is that the more a company makes and sells a product, the higher the odds are that company will excel. The share leader has economies of scale and can choose which weapon - price, advertising, tie-ins, etc. - to shape the industry landscape. This can be exercised as long as the customer remains front and center. It also necessitates instilling a corporate mindset which is highly adaptable to constantly changing market conditions. This is easier said than done but can be achieved even in the largest organizations. In the digital age the network effect kicks in to reduce transaction and labor costs, leading to a “winner-takes-all” dynamic.



Forces at Work

Once market share is captured, today's corporate Bulldogs will not let go. No longer will they abdicate the low end of a market just because margins could erode. "Let competitors in the bottom and it will not be long before they are nibbling in the middle," are lessons learned from companies like Xerox, which today is a shell of its former self. A technology giant like Apple is willing to tolerate lower margins on MacBooks and cheaper iPads to defend its premium iPhone franchise and unique eco-system, making it increasingly difficult for other industry participants to take share.

The price / value relationship and the price spread between brand name and discount label are carefully monitored balances which market share leaders seek to control. They believe pricing power leads to profit power. The length and depth of economic cycles are becoming less predictable, especially during times of rapid technological transformation. The need for a tenacious management style will become more evident. When the economy is growing rapidly, it tends to be camouflaged. In low global growth environments, it will be increasingly apparent who the winners are.

The collective wisdom of the market is extraordinarily good at sensing changing competitive winds. Historically, it was research analysts and market pundits who introduced news and intelligence into the information network. Today it is the internet, spreading corporate intelligence and competitive trend analysis in real time. Word-of-mouth filtering has been replaced by Twitter feeds and Snapchats. As a result, information has been democratized and fierce competitors like Apple and Starbucks have figured out how to shape the narrative, putting them near the top of nearly every major brand ranking category in social media.

One of the reasons the U.S. stock market has outperformed developed countries' markets over time is global investors' appreciation of this competitive management style. Amazon, Google and Paypal have created businesses that did not exist just a few decades ago. They were disrupters at inception and rapidly gained market share in new segments.

Market Relevance in the Digital Economy

Amazon, which began as an online bookseller, is now the most feared competitor in e-Commerce and cloud computing across all categories. It is not only the fastest growing e-commerce retailer, but it has become an enabler for many retailers looking to expand distribution in to online channels. Amazon's technology and cost advantage in next-day shipping is reshaping what is today known as omni-channel retailing, the convergence of brick and mortar retail with e-commerce. Alphabet's Google search engine dominates internet exploration with over 60% market share. The company's Youtube franchise continues to be dominant player in online video and has developed a profitable business model. For Alphabet, this is not enough. It uses its financial strength and competitive edge in computing power to invest in innovations such as self-driving car technologies under its Waymo division.

Paypal, is another example of a company that began as a payment software supplier largely captive to eBay, its former parent. It is now redefining digital payments for banks and credit card issuers. In 1999, it largely invented the digital wallet, and in 2013 it acquired Venmo, which is now a market share leader in peer-to-peer cash payments. CVS Health stood for for Consumer Value Stores when it was founded in 1963. It transformed its traditional pharmacy to full service omni-channel ' minute-clinics,' enabling doctors and pharmacists to schedule vaccine appointments and interact with patients via their smartphones as well as provide vaccines at their physical locations.

Speciality retailers like Costco, Home Depot and newcomer Ulta beauty, have successfully defended their brick and mortar businesses in the digital age. These companies have found a way to create a competitive moat around their stores by creating a shopping expierence that cannot be replicated online. Costco has created a unique shopping expierence among its growing membership by providing a scavenger hunt-like experience for its customers. Shoppers go to Costco not only to get a good deal, but to discover new products from high-end jewlery to the newest flat panel TV. Home Depot's industry leading profit margins and market share are driven by the quality of its service by selling products like lumber and appliances which cannot easily be sold online. Ulta Beauty is quickly taking market share from traditional beauty salons and cosmetics retailers by focusing on the highly lucrative " beauty enthusiast." Ulta's innovative loyalty program rewarding high volume shoppers, both in stores and online, produces industry leading unit growth.

Bulldogs Unleashing the Power of Blockchain

Broadridge and S&P Global are two competitors that are using their technology edge to transform the financial sector. Broadridge, is the leader in global proxy voting services launched a blockchain-based solution with its largest customers JPMorgan, Northern Trust and Banco Santander, to facilitate global proxy voting transparency. Breakthrough technologies like distributed leger technology, also known as blockchain, drive enormous efficiencies for customers that deal with large quantities of data.

At a recent annual Asia Pacific conference, S&P Global's Director of Inovation James Rilett announced that it has invested to create a full-time innovation lab in Singapore, which will be focused on key market themes including blockchain and real-time analytics. S&P Global is leading a rethinking of energy markets to ensure decentralized assets are better incentivized to respond to increasingly intermittent power generation worldwide. Rilett recently announced a first-ever public unveiling of Distro a groundbreaking real-time decentralized energy marketplace supported by blockchain and AI technologies.

Investment Implications

Stock market differentiation is evolving from a "risk on, risk off" environment where correlations among asset classes converge. As investors recognize the intensity of today's sales battles and reward the winners, premium valuations are likely accrue to dominant competitors. Costco is just one example of a company that has been recognized for its success, and as a result, its shares sell at a consistent premium the S&P 500 price-to-earnings (P/E) multiple. The company's focus on providing a premium shopping expierence for its cost-conscious members, while creating industry leading earnings growth and consistent dividend growth, has helped the company retain a premium P/E multiple for the past two decades. At the same time, over the past 10 years the shares have returned more than twice the market's total return.

Premium Valuations

Premium valuations afforded to companies like Home Depot and Costco are not yet broadly applied to other leading companies. On average, our current universe of 200 Bulldog-like companies sells at a modest premium, 1.2x that of the S&P 500 P/E multiple. We believe these types of stocks can be afforded a much greater differntial in the future. In the early 1970s, when fund managers hungered for the original Nifty Fifty stocks, which continued to grow earnings under wage and price controls, their average relative multiple reached 2.4x. The current group is a different mix of companies, in a different set of conditions, so it is unlikely that such a wide margin will be repeated, but there is ample room for improvement.

Growth-Cyclicals

Bulldogs are not limited to traditional growth sectors. A number of these competitive leaders are considered either cyclical or "growth-cyclical" companies and can also be found in traditional value sectors. Thus, it is rare that they would be awarded premium valuations on normalized earnings. They can, however achieve capitalization premiums within their respective sectors. These companies can be found among industrials like Federal Express or Rockwell Automation.

Global Bulldogs

While most of our Bulldog universe is domestic, an increasing number of candidates are surfacing from other developed economies and rapidly growing emerging markets. The digital economy has enabled corporations in emerging economies to leap into global leadership positions. Alibaba Group, founded in 1999, has leveraged the internet to transform commerce in China and position itself as the dominant online marketplace and mobile payment provider via Alipay. The company captures over 80% of online sales in China and is rapidly expanding into new markets across the region and beyond. Alibaba holds a prime position in the single largest consumer expansion of the century.

Another example is Taiwan Semiconductor (TSMC), which has successfully fused its technological manufacturing edge with its global supply chain to become the largest foundry chip-maker in the world. Continuous and aggressive capital spending has cemented the company's competitive position, and its expansion of production capacity ensures TSMC can meet increased global demand for semiconductors.

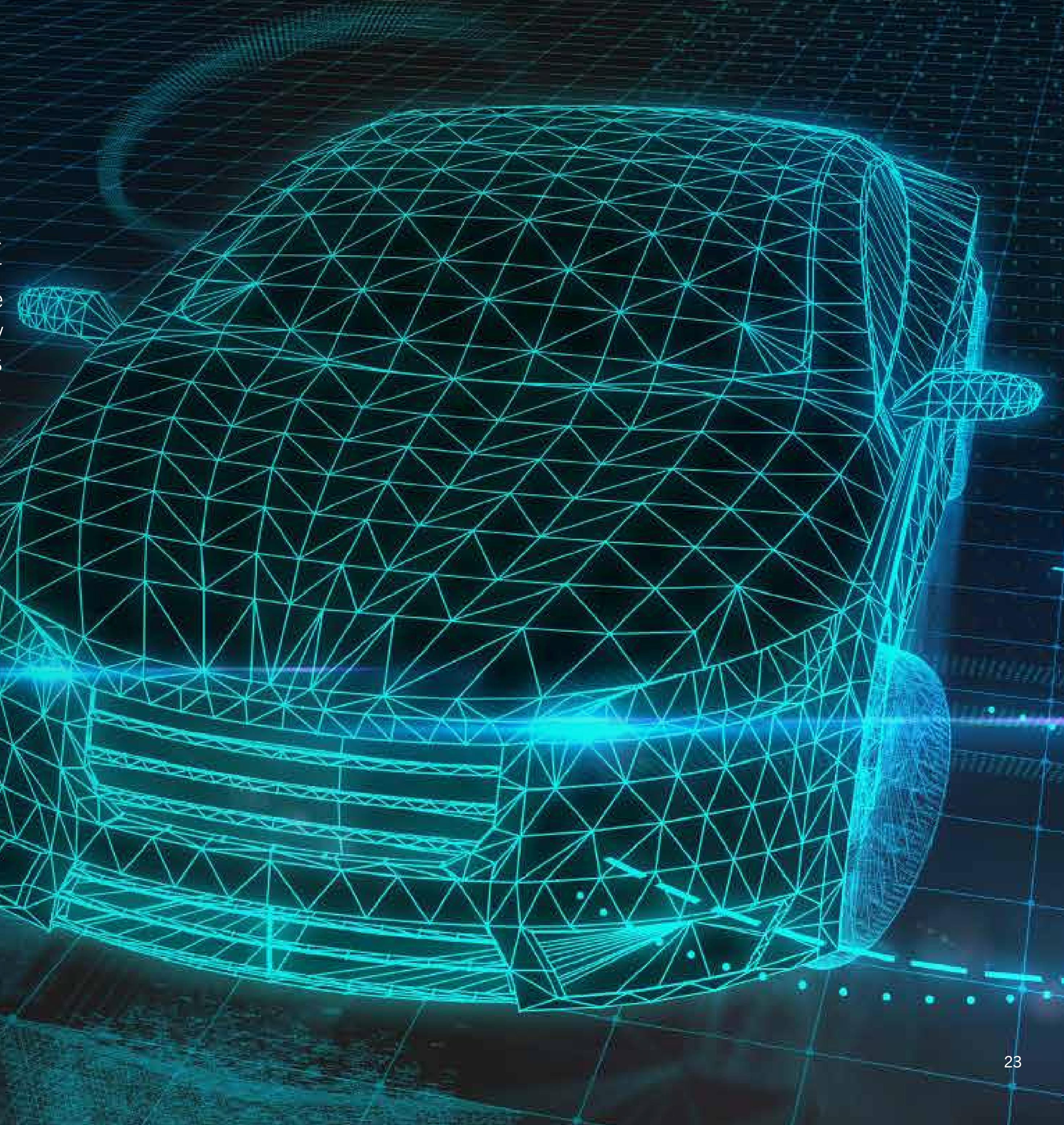
Bulldogs Think Global, Sell Local

Today's domestic Bulldogs are increasingly searching for new markets and broader supply chains. "Think global, sell local" has become the new marching order for business leaders. Markets and the modes of production have become global. Components for smart phones or cars are no longer sourced from only one country. Corporate managements are carefully weighing the balance between creating an efficient global supply chain for their products and opening new end markets. Meeting global demand in a timely and cost-efficient manner is what sets companies apart. Global Bulldogs have demonstrated their ability supply products and uninterrupted services even during pandemics. Adapting to different cultures and offering products and services that local customers value is a key differentiator.

Emerging Bulldogs

Size and reach are key advantages in today's globally competitive landscape, but only if managed effectively and economies of scale are exploited. A company's ability to fund its own expansion is a distinct advantage. Large companies also have an edge when new global markets open for participation for the first time.

Bulldogs do not need to be large to be successful. Smaller companies can also prosper if they create and strengthen unique niche positions through product enhancements and geographic diversification. These emerging Bulldogs like Tesla, tend to be disruptors and seek to take the lion share in their respective markets very quickly. They tend to have first-mover advantage in a product or service. Many of these companies can be found in the healthcare and technology sectors where we are seeing continual disruption. Autonomous vehicle technology companies like Mobileye and Aptiv are examples of innovators in a new segment. Examples in the healthcare sector include Illumina and Thermo Fisher, innovators in genomics sequencing machines. Their market share lead in this fast-growing niche has already drawn the attention of big pharma.



Bulldogs at the Intersection of Biology and Technology

Thermo Fish and Illumina, Inc. have emerged as dominant players in the genomics sequencing segment, serving customers in the research, clinical and applied markets. These companies were essential to the adoption of genomics solutions which lead to break through Covid-19 vaccines. As a start up, Ilumina aspired to transform human health. Its initial products enabled reseachers to explore DNA and RNA at an entirely new scale, helping them create the first map of gene variations associated with health, disease, and drug response. Today, Illumina is a global market share leader in genomics and Thermo Fisher is the defacto leader in diagnostics. Genomics and diagnostics are industries at the intersection of biology and technology.

The Covid-19 pandemic has put the genomics revolution at the forefront of transforming health care as we know it today . This would not be possible without the quantom computing power of companies like Google, a division of Alphabet. As early as July 2018, Google announced it had joined the National Institutes of Health (NIH) as a partner of the STRIDES (Science and Technology Research Infrastructure for Discovery, Experimentation, and Sustainability) Initiative to bring the power of Google Cloud to biomedical research. As part of this agreement, it makes some of the most important NIH-funded datasets available to users with appropriate privacy controls. To simplify access to these datasets, it will integrate researcher authentication and authorization mechanisms with Google Cloud credentials. Google is working with the Global Alliance for Genomics & Health and the BioCompute Consortium to support industry standards for data access, discovery, and cloud computation.

Competitive Alliances

James F. Moore argued in his 1996 book, ***The Death of Competition: Leadership and Strategy in the Age of Business Ecosystem***, that the concept of dividing businesses by industry is no longer useful. His notion is that competition is intensifying at such speed and flex that companies no longer operate or think along traditional industry lines. This seems to be especially true with companies at the forefront of technology. Alliances are cropping up every day between the likes of Amazon, Google, Apple, and Microsoft, reaching far beyond traditional industry or sector boundaries. In these rapidly developing businesses, substantial investment premiums can accrue to those deemed to have the right competitive combination, but they can also evaporate quickly. The focus is not to generate overnight wonders, but instead to create fundamental and lasting competitive advantages.

A case in point is biomedical research, which faces enormous challenges as world-wide laboratory volumes of transcriptomic, metabolic, phenotypic and other data generated research continues to grow. According to the National Center for Biotechnology Information, the total amount of sequence data alone is doubling every seven months. Analyzing this staggering amount of data presents the potential for enormous positive impact. Combining the cloud computing power of Google Cloud services with traditional Biotech research labs can overcome these challenges by providing scalable storage, elastic computing resources, fast global networks, and tools for data preparation and analysis. These new alliances are going to drive new growth for existing Bulldogs.

Competitive Duration

Companies with longevity, or what we call competitive duration, possess consistent management aptitude and focus. Flexibility, the zest to win, and commitment to the customer are all common traits of successful company managements. Complacency becomes the enemy of success and even the smallest competitors should not be dismissed. Winning managements and winning companies stay close to their customers and promote cultures that consider customer feedback before head-office feedback.

The economic shutdown due to Covid-19 showed that companies providing essential services and products directly to customers tend to have the highest odds for longterm success. They have a lower chance of product obsolescene if they match value with price. Component producers, on the other hand, are subject to production substition risk as well as pricing pressure from customers and systems integratators. Traditional barriers to entry, such as patents, capital, economies of scale, and access to low cost raw materials, provide a competitive edge. But new variables including streamlined corporate stuctures, online presence, Bulldog-like approaches to new markets are also key differentiators. Companies with well positioned businesses like Microsoft and Federal Express have resorted to selling non-core operations in an effort to maintain focus in select businesses. This “born again” intensity may ensure their respective dominance for a long time.

Bulldog Characteristic

One common characteristic of a corporate Bulldog is its willingness to fight to protect its turf. On a long-term basis, dominant market share positions help deliver top-tier returns on assets and income, but also breed envy on the part of competitors. Those competitors are not always docile, and on occasion, a new entrant attempts to upset the mix.

The key trait of a Bulldog's operating philosophy is their insistence on protecting and growing market share. This philosophy, however, does not always comport with Wall Street's focus on quarterly operating result progression. Bulldogs take a strategic, long-term view of the competitive landscape and are willing to make tactical moves that may sometimes come at the expense of near term income generation. Portfolio managers and analysts will have to grapple with the reality that some of their investment favorites do not always generate "straight line" results.

Mindset

As Portfolio Managers, we have simplified our investment process by filtering out of our information inbox those stocks that do not meet our investment prerequisite of having a discernible competitive edge. Our advantage is gained by not expending resources on companies that may be considered "also rans." The challenge for us is in discerning uniqueness, competitive fervor, and competitive moat. Company size, market value and industry become secondary.

Over the past 25 years we have applied this discipline to establish a universe of about 200 stocks of companies that embody Bulldog characteristics. New ones are added and others removed as the competitive landscape shifts. Once dominant companies like GE, Kodak and Xerox are examples of companies that ultimately lost their edge and their pre-eminent market positions. They have been replaced by premier companies like Paypal, Tesla and Autodesk. Our multi-step investment process is geared towards identifying which Bulldogs to own and in what proportions.

IN SUMMARY

Jim Moltz taught us that:

"Buying stock in a company that takes market share is the only insurance policy one can get in a stock purchase." Furthermore, "Bulldogs are all about growth in units, and that is real growth. They are also good at dropping unit costs." For example, Corning tells its LCD customers: show us a price a competitor offers lower than ours and we will match or beat it a month later, i.e. they have have more efficiency. This is a telltale trait of a true Bulldog. Importantly, Bulldogs sell high quality products that give purchasing agents comfort that contracting with a Bulldog poses no career risk to the agent. Bulldogs have strong balance sheets and do not hesitate to use them in ways that include longer payment terms, consignment of inventory to customer usage regions, company sales promotions, cooperative advertising, etc. In short, Bulldogs use their strengths to drive unit growth leading to superior results.

THE BULLDOG PORTFOLIO MANAGEMENT TEAM

C.J. Lawrence's investment team share many decades of experience and have followed the Bulldog investment philosophy for individual clients and institutions for many investment cycles.

ABOUT C.J. LAWRENCE

C.J. Lawrence is a leading New York-based investment management boutique providing platinum level service and investment portfolio customization to individuals, families, foundations and institutions. With a legacy that dates to 1864, C.J. Lawrence was re-launched in 2014 as an independent SEC registered investment advisor. The firm combines the talents of a highly experienced portfolio management team with an environment centered only on delivering optimal results for our clients.

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PORTFOLIO STYLES	U.S. Equities
	Global Equities
	Equity Income
	U.S. Balanced
	Global Balanced
CUSTOMIZED PORTFOLIOS	Client Specific Asset Allocation
	Estate and Tax optimization
	Yield Portfolios
	Total Return Targeted Portfolios
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