



Nobody Likes Change

Knowing what to preserve, and what to evolve

Francois de Bruin, Fund Manager



We like the idea of change. What we dislike is the uncertainty it creates. Faced with that uncertainty, we naturally anchor to what we know and extrapolate what we have already observed. This is understandable. Experience is one of the few guides we have to an unknowable future. But it can also become a trap. A rear-view mirror is useful until the road bends.

My father-in-law is a cattle farmer in South Africa. Among the animals he farms are Charbray cattle, a breed created by combining Charolais and Brahman cattle. Charolais bring size and growth. Brahmans bring resilience and an ability to thrive in difficult conditions. Farmers did not create Charbray because they wanted something different. They did it because they wanted to preserve the best characteristics of each breed while producing an animal better suited to the environment ahead.

That strikes me as a useful way to think about change. The most productive change is rarely wholesale replacement. It begins by identifying what deserves to endure, what needs to adapt, and whether the resulting combination is better suited to future conditions.

That question applies to companies, markets and portfolios. It also applies to portfolio managers.

Change in the management of the fund

When I took responsibility for the Royal London Global Equity Select strategy, I inherited a fund with a strong heritage and an established philosophy. Clients quite reasonably wanted to know what would remain, what would change, and whether the people now responsible for the strategy would steward their capital with the same seriousness as those who came before.

There were two tempting but unhelpful responses. One was to change nothing and present inactivity as continuity. The other was to change everything in order to demonstrate ownership.

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In November 2024, I became one of the changes clients in our Global Equity Select strategy were being asked to assess.

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Neither approach puts clients first. Shares do not become more attractive because they were already in the portfolio, nor less attractive because somebody else bought them.

The right response is selective evolution.

The change was in the decision makers, not in the belief that managing a concentrated portfolio should remain a team endeavour. I lead the strategy, supported by Paul Schofield, and the broader Global Equity team. We all act as generalist analysts, and every idea must survive challenge and disagreement.

In fact, some of our most valuable discussions emerge when we disagree. A recent debate on Meta Platforms involved strong arguments on both sides of the investment case. That matters because concentrated portfolios need challenge. Without it, conviction can easily become theatre.

We have retained the central insight of the Corporate Life Cycle: the market can misprice how companies create shareholder value

at different stages of their development. An early Accelerator should not be assessed in the same way as an established Compounder or a Mature business. Companies can create value at every stage of their life cycle, but the source of that value creation, and the reasons it may disappoint, change over time.

Change in markets

The investment industry is fond of nouns. We call companies growth stocks, value stocks, quality stocks, cyclicals or defensives. The labels are convenient, but they can encourage a static view of business that are constantly changing. Companies are verbs. They are always becoming something else.

Sometimes that change is gradual. At other times several forces arrive together and accelerate it.

Consumer behaviour continues to change how products are discovered – and distributed. The cost and availability of capital influences which ambitions can be funded and which must be abandoned. The same force can strengthen one business and weaken another.

It is tempting to treat these developments as investment conclusions in their own right. They are not. A theme is not an investment thesis. A theme is a source of change.

Artificial Intelligence is not good example. It is often discussed as if it were a single trade populated by an agreed list of winners. In reality, AI touches companies at very different points in the Corporate Life Cycle and creates very different opportunities.

For an Accelerating company, AI may open an entirely new market. The opportunity can be enormous, but so can the uncertainty. Adoption rates, competitive responses, funding needs and eventual economics remain difficult to predict.

For a Compounder the question is different. We care less about whether AI is exciting, but whether it strengthens an existing competitive advantage. Does it increase returns on capital? Does it extend the duration of growth. And, crucially how much of that future benefit is already reflected in whether the share price?

Elsewhere, the opportunity may be found in less glamorous places. Power generation, transmission, cooling, networking and storage may lack the excitement of AI software, but they remain essential to enabling it. Some of tomorrow's beneficiaries may look more like Mature businesses than traditional growth companies.

There will be losers too. Some companies will find their advantages disrupted. Others may prove far more resilient than investors expect. In some cases, new technology may even provide the catalyst that reignites a Turnaround.

The theme is the same. The opportunities are not.

That is why we resist building portfolios around a single prediction about the future. We do not need to know exactly how AI develops, or where interest rates settle which geopolitical issue dominates the headlines next year.

The future will always be uncertain. The price is not. The task is to judge whether that uncertainty is being fairly rewarded.

Change in the portfolio

A portfolio should be a living expression of its investment philosophy. If markets change, opportunities change and evidence changes then the portfolio should be willing to change as well.

Otherwise consistency becomes inertia.



Artificial Intelligence is reshaping the economics of computing. Geopolitics is altering supply chains and energy security.



Since the management transition, both the holdings in the portfolio and their weights have evolved. The pace of change has varied over time as opportunities emerged and investment cases developed. The amount of change itself nor clients very little. What matters is why changes were made and what we expected those decisions to achieve.

We monitor every holding against the milestones that underpin our investment thesis. When new evidence weakens that thesis, we reallocate capital. Equally, when milestones are achieved and market expectations catch up with reality, we are willing to take profits. A successful investment does not become more attractive simply because it has worked.

When companies move through different stages of the Corporate Life Cycle, we reassess them through the lens of their new reality. The questions we ask of an Accelerator are not the same questions we ask of a Mature business, and neither should they be.

Position sizing its at the heart of this process. Many investors treat stock selection and portfolio construction as separate disciplines. We see them as inseparable.

An Accelerating company may offer exceptional upside, but the range of possible outcomes is often wide. That may justify a smaller position. A proven Compounder with durable reinvestment opportunities may justify a larger one. A Slowing & Maturing business may offer an attractive return because investors have become too pessimistic, but once that expectations gap closes, continued ownership must earn its place again. Turnarounds can create significant value, but hope is not evidence and position size should reflect that reality.

Or, to put it more simply, position size is not a measure of how much we admire a company. It reflects our confidence in the evidence, the potential loss if we are wrong, the upside that remains, the range of possible outcomes and the risks already present elsewhere in the portfolio.

The same reasoning governs selling. Investors often feel that a sale requires a prediction that the share price will fall. It does not. A sale is simply another capital allocation decision.

A company can remain admirable long after the return we originally identified has been captured. If expectations have caught up with reality, or a more attractive opportunity exists elsewhere, capital should move.

This is particularly important when the original opportunity had a finite destination. Holding out for “the next leg” can become another form of anchoring. We stop reassessing what is available and begin defending what we already own.

Changing one's mind is not evidence that the original decision was careless. Refusing to change when the evidence changes may be.

The asymmetry of change

Change is not automatically progress. A new technology can destroy value as easily it creates it. A corporate reinvention can be genuine or merely rhetorical. A portfolio manager can improve a process or diminish it. The investor's responsibility is not to celebrate change; it is to analyse it.

This is why repeatedly return to four questions:

1. Where is the company in the Corporate Life Cycle?
2. How can it create shareholder value from here?
3. What does the share price already assume?
4. Given the potential reward and the cost of being wrong, how much should we invest?

These questions guide every decisions we make within the portfolio. They are also a useful way to judge the evolution of the strategy itself.

When I became responsible for the Global Equity Select strategy, we inherited a strong foundation: the Corporate Life Cycle framework, a focus on economic value creation and a concentrated portfolio designed to make successful stock selection matter. Those characteristics remain. What has changed is the way we express that philosophy. We have combined the existing framework with our own experience, a more explicit focus on expectations and asymmetry with our own experience, a more explicit focus on expectations and asymmetry, and a tighter link between investment conviction, position sizing and sell discipline.

As my father-in-law's Charbray cattle demonstrate, the objective is not change for its own sake.

The aim is to preserve what is most valuable, adapt where improvement is possible and ensure the result is better suited to the environment ahead.

Nobody likes change because nobody knows exactly where it will lead. Yet uncertainty is also where opportunity lives. The objective is not to be different. It is to be better adapted.

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Investment Risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

EPM Techniques: The Strategy may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Strategy to increased price volatility.

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Liquidity Risk: In difficult market conditions the value of certain strategies may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

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Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Strategy to financial loss.

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