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Monthly Monitor

October 2018

Appian on the Ground in Germany

A recent trip to Germany to 'kick the tires' proved to be a worthwhile exercise. The tone of our company meetings was generally positive and many German stocks demonstrate the characteristics we find attractive.

We visited Germany for three days, meeting the management teams of a variety of quoted companies. A number of common themes emerged from the meetings which were noteworthy.

No sign of Recession

Management teams were nearly universal in that they see no signs of slowdown or recession in either the domestic or international economy. Issues such as Brexit and potential trade tariffs were identified as clear risks, but these were reported to be having no material impact on businesses at this stage.

Most challenges seemed to be more of a specific nature than general – for example some companies were dealing with shortages of some raw materials or sudden increases in the cost of those, while the German car industry appears to have been slow to adapt to newly implemented vehicle testing procedures post 'diesel-gate' and this is having an impact on German car production in the near term. Such challenges were regarded as being of a temporary nature rather than structural.

Going Digital

Another recurring theme was digitalisation – a fancy word for IT investment. Many companies are investing in IT to make the way they conduct business as computer / or

online based as possible – everything from customer relationships, to order intake, to production management and on to distribution. The aim of this digitalisation is to improve efficiency, responsiveness and scalability.

Where are all the Workers Gone?

Many of the companies noted that they were operating in parts of Germany where the rate of unemployment was sub 3%, which in practical terms is effectively zero. The issue in such places is less about pay rates and more about not being able to get people at all. The responses to this challenge include investment in automation and transferring some functions to other economies where labour supply is greater. However, there appeared to be a clear preference to retain higher value added functions and R&D close to home.

A Firm Eye on the Long Term

One nuance with German management teams, compared to their Anglo-Saxon counterparts, is that during discussions they place more emphasis on long-term plans. There is a focus on value creation over the long term, and as a result, investment decisions are often framed through a multi-year lens. Many German public companies still retain the families who founded them as key shareholders. These families are often less concerned about the short-term vagaries of public markets and this seems to contribute to the focus on the long term. Importantly, there is often a strong financial discipline around planning, in relation to return on investment and cash generation. Companies who can combine these factors successfully should be capable of compounding good returns over time.

Many quoted companies in Germany possess the characteristics the Appian investment process seeks in equities – established, high-quality, well-managed, cash generative businesses. Consequently, we expect that Germany will continue to be a good potential source of stock selection for us when such companies are available at attractive valuations.



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Appian Unit Fund Prices

1 October 2018

Appian Value Fund	145.56
Appian Equity Fund	194.12
Appian SCOF	198.20
Appian Liquidity Fund	105.14
Appian Ethical Value Fund	103.17
Appian Burlington Property Fund	117.38

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