

Our Investment Thesis

Inflection Point’s “sustainability alpha” investment thesis is quite straightforward, and is based on the following convictions:

- Changes in investor convictions and expectations trigger stock price changes. Exploitable sources of excess return generally arise from consensus errors in estimating growth and valuation changes, and a failure to recognize important change catalysts and inflection points.
- Generating superior returns requires accurately anticipating changes in companies’ competitive prospects *before* the broader market recognizes them.
- “Extra-financial” risks and value drivers, including environmental and social factors, are among the most powerful – but least recognized – catalysts for significant changes in companies’ competitive positions.
- Traditional financial analysis simply cannot possibly provide a complete picture of companies’ true competitive risks, value potential, and future performance. Typically, at least 70% of a company’s value is driven by “intangibles”. The most important of these is arguably “management quality”.
- *Management quality* may be the single factor most critical to companies’ competitiveness, profitability and, ultimately, their share price performance; in spite of this, however, it is only rarely defined, measured, or analyzed systematically by analysts. It is therefore, the “Holy Grail” of 21st century investing.
- Investors who can and do develop robust, *forward-looking* measures of management quality will gain an enormous information advantage – and therefore a financial performance edge. *We therefore consider assessing companies’ management quality in a systematic and forward-looking way to be the #1 focus of our investment research.*
- “Sustainability” performance and strategic positioning are becoming increasingly robust and proxies and leading indicators for the quality of companies’ strategic management; companies with superior sustainability performance and positioning tend to be:
 - More agile, adaptable, and able to respond quickly to a rapidly-changing competitive environment
 - More forward-looking
 - Better managed companies overall, and therefore:
 - More likely to outperform financially, in the medium and long term.
- A constellation of increasingly powerful, secular global mega-trends is dramatically re-shaping companies’ competitive environments, in ways which promise to increase the “sustainability alpha premium” even further over the next 5-10 years.

- Corporate “sustainability” is about much more than “ESG”; factors such as their innovation capacity, adaptability, and responsiveness will also be critical to their future competitiveness, and must therefore be analyzed, consistently and in-depth.
- Comprehensive, sophisticated, institutional-quality research on companies’ very different capabilities in these areas is extremely rare. Investors with timely access to them possess a powerful information advantage, which can be monetized.
- The most compelling investment solutions will be those which *combine* institutional – quality sustainability research with best-in-class fundamental and quantitative asset management capabilities.