

Strategy Notes June 2017– The Age of Disruption and the Business of Funds Management

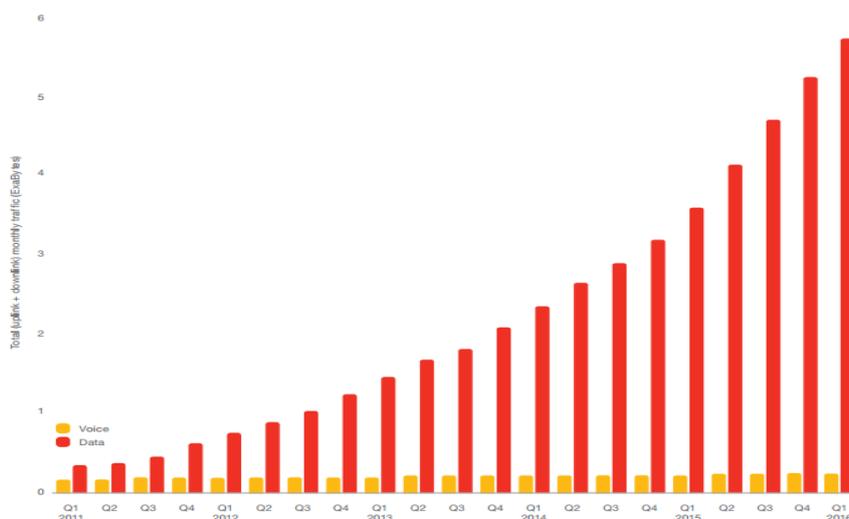
This month marked the 10-year anniversary of the launch of the original Apple iPhone and with it another reminder of just how dynamic the global investment landscape has become in recent years. While Apple investors cheered the launch of the smartphone device, it would be difficult to think that they, or even founder Steve Jobs, would have appreciated at the time just how significant the device would be to a number of industries over the following decade.

The market cap for Apple, already growing well on the back of the refreshed Mac and iPod offerings, sat at US\$105bn at the time of the launch. A decade later, the business commands an equity market capitalisation in excess of US\$750bn. While the equity value generated to shareholders over that period can't be entirely attested to the iPhone, its introduction would prove to be a critical inflection point for both Apple and a multitude of other industries in bringing the internet into the consumer's pocket. Today it is estimated there are now well over 700m active iPhone users globally, while more than half of the entire world's population now has access to an IOS or Android smartphone device.

We have mentioned in previous letters how **investors today are being increasingly challenged by both the opportunities and threats that new technologies are bringing to established business models**. Never before has the investment management community needed to continually review and re-test the ability for a company's business to be disrupted by an emerging entrant (or identify the opportunity inherent in new business models). With increasingly more sophisticated technology, globally-connected communities and a venture capital industry that is willing to fund untested business models, the rate of change and the consequences of those changes continues to increase dramatically.

In the iPhone's case, the impact from its introduction extends beyond smartphone unit sales and industry market share, indeed entire industries have been created as a result of access to the internet on a personal handset. Telco operators, for one, have been huge beneficiaries as data usage rates have grown significantly. Telstra, for example, has seen a nine-fold increase in Australian mobile data consumption in the last 5 years alone, a trend that has been replicated globally.

Global Mobile Data Usage vs Voice 2011-2016



Source: Ericsson Mobility Report 2016

We often forget the introduction of the smartphone has also paved the way for an entire wave of new app-based business models that arguably would not have been able to exist pre iPhone. Tech heavyweights such as **Uber**, **SnapChat**, **WhatsApp** and **Spotify** all operate businesses almost entirely dependent on smartphone functionality. Using the latest available private valuation data...

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