



The Specialist Advantage

Investing is increasingly becoming a specialist game

Over the course of our career, we have focused on identifying and investing in companies that benefit from an [accelerating rate of change](#).

Reflecting on our learnings over the years, we find that every generation has its own unique set of challenges and opportunities. Companies that seek success need new translations of the old playbook. One only needs to scan the headlines for evidence that agility, nimbleness and thoughtful capital allocation is being rewarded with inflecting financials and strong share prices. While many things change, some attributes remain timeless, namely the ability to [Innovate, Adapt, and Execute](#).

We believe today's investing opportunity-set is rich, however, not readily accessible to the [Generalist](#) investor. The heightened complexity in which today's companies operate, extends to the investing environment as well. Some of the greatest investment opportunities we see are housed deep within the technology stack and across the life science ecosystems, areas where generalists, often lacking the technical credentials, are ill-equipped to evaluate the nuances of these business. In other sectors, the catalyst for change may be hidden from plain view.

Nicholas Investment Partners has taken the view that the business of investing is increasingly becoming a [Specialist's game](#), requiring a new lens from which an investor evaluates companies.

To meet these challenges, we have sought to develop a multi-disciplinary team of professionals, including those with [distinct operator backgrounds](#). These investment professionals have direct experience building and scaling companies, which allows us to more fully understand and evaluate prospective investments from the inside-out...[An Operator's Perspective](#).

We believe that this combination of [diversity, team cohesion, deep operating expertise, and extensive portfolio management experience](#) provides a significant and unique competitive advantage, keeping us a step ahead of the rest as we seek new agents of change.

We invite you to learn about how we delineate the market and explore some of the segments which illustrate our way of thinking. Housed within these categories are companies which we believe are positioned to usher in the future, while rewarding investors with superior risk-adjusted returns.

NICHOLAS INVESTMENT PARTNERS

The Face of Change: Innovation & Disruption is not spelled MATFANG

We often hear the words innovation and disruption, and more often than not, the names Microsoft, Apple, Tesla, Facebook, Amazon, Netflix, Google (MATFANG) can be found in close proximity. And rightly so. These companies are the titans of industry, setting the tone in technology and many adjacent industries. We hold these companies in high regard and believe they likely have a place in many investment programs. Despite this, as **active managers**, we think we owe it to our investors to **dig a little deeper**.

Change and innovation can have many faces, with some sources being readily identifiable (e.g. management change or a new product). **More often, the driver of expected change is far more subtle** (e.g. changing industry dynamics or addressing underserved markets), requiring a detailed understanding of the business/industry to identify where and when the inflection points will occur. Without the ability to identify the inflection and the magnitude of potential benefit, investors will find themselves behind the curve.

The companies we target are market leaders in a defined niche and have also **demonstrated the ability to execute and adapt to change**. These companies often have the ability to create their own catalyst of growth through new product development, entering new markets, or innovating within existing markets.

Change Agents: Cross-Sector Convergence

Molecular Biology + Industrial Chemistry + Artificial Intelligence (AI) = Synthetic Biology

At a high level, synthetic biology enables us to engineer biology. Armed with a thorough understanding of DNA (a result of the surge of genetic sequencing - *reading* DNA) and reduced costs, scientists can now *write* DNA, printing customized strands of DNA. When combined with AI capabilities, scientists are now able to program cells much like programmers use code to create software. Most efforts have been targeted at synthesizing known compounds (pharmaceuticals, fuels, fabrics, foods and fragrances). However, there are companies that are hard at work to identify new compounds not found in nature. We are fond of this quote from the *Economist*: **"It is entirely plausible that engineering the animate could produce wonders as great and as varied —and as unimaginable today as skyscrapers and silicon chips were 200 years ago."**

Portfolio Insight: *The synthetic biology segment is still in its infancy phase however our portfolios have exposure in one of the two publicly-listed pure-plays as well as exposure to the industry leader via a private investment. We expect our exposure to this segment will grow as the industry emerges from its early stages.*



Catherine Nicholas
Managing Partner/CIO



Lisa Wheatley, Partner
Healthcare Specialist



Monika Garg
Technology Specialist

NICHOLAS INVESTMENT PARTNERS



Shifting Regulatory Environment

Removing the Red Tape, Spurs Innovation & Adoption

This change factor is a major consideration for heavily regulated industries like Life Sciences. Several years ago, the FDA began taking a more accommodative stance towards drug development, accelerating the path to approval for novel biologics. In recent years, **the accommodative stance** has continued to evolve, providing **a massive tailwind to the industry**. With a commitment to transparency and a willingness to engage with drug developers, the FDA has greatly reduced the uncertainty associated with new drug development (*though it is still tricky*).

While the FDA has been forward-thinking on this front, other healthcare regulatory bodies had been slow to remove onerous rules that stifle innovation and adoption. This dynamic is rapidly changing as a result of the pandemic. Notably, officials at the Centers for Medicare and Medicaid Services (CMS) have issued sweeping changes in recent weeks to make services like telehealth easier to access. **“It’s taken this crisis to push us to a new frontier, but there’s absolutely no going back.” - Seema Verma, Head of CMS.**

Portfolio Insight: Life Science, including biotech and digital health, is a major component across our portfolios. We have been invested in Digital Health/Telemedicine segment for several years, yet we have never been more excited about the industry's prospects due to our expectation for accelerated adoption of novel services and delivery modalities. The same goes for biotech, which we believe remains in the early stages of innovation/growth.

What's Old Becomes New

Structural improvement and new end markets drive growth in a legacy industry

We view silicon as both the **enabler and gating factor for some of the largest technology trends today**, including AI, Internet of Things (IoT) and Electric Vehicles. While Semiconductors and Semi-Cap equipment companies had been dismissed as bad businesses (*i.e. commoditized, low margins, reliance on price sensitive consumer products*), **the emergence of hyper-growth end markets** including Compute and Electrification, have **created new, higher value-capture opportunities** for silicon. However, this has led to increased complexity of chip manufacturing, requiring highly specialized know how and scale to manufacture leading edge equipment.

The increased barriers to entry plus consolidation in the industry is leading to better pricing power and operating margins for the semiconductor companies and those that sell into the segment.

Portfolio Insight: We believe this blunting of the semi-cap cycles of the past is still under-appreciated by the investors. Our foundational understanding of the technology also provides unique insights into when, how and why new technologies in adjacent verticals are being adopted. Meanwhile, the wide reach of silicon provides a live “macro” demand view which helps inform our broader portfolio views.



Catherine Nicholas
Managing Partner/CIO



Lisa Wheatley, Partner
Healthcare Specialist



Monika Garg
Technology Specialist

Cleaning Up the Textile Industry

Sustainability goals = Innovation in digital textile printing

Most consumers may not be aware of this but the textile industry is a dirty business. The heavy use of dyes and chemicals in the finishing industry creates large amounts of *waste-water* that is hazardous to the communities in which factories are located. While it is easy to turn a blind eye when manufactured overseas, as production plants are re-shored back to the US, we think **consumers will become increasingly sensitive to how their products are produced.**

We believe that **companies advancing environmentally sound solutions via technology will see tremendous uptake over time.** While there are many ideas on how to improve existing processes, it is vital that these new technologies are able to scale at reasonable costs. From an investment perspective, this requires a discerning eye.

Portfolio Insight: *We identified a company that applies sustainable solutions to the fashion industry via a technologically advanced printing system, allowing for mass customization of printed textile products. The trend of increased customization is in itself a growth theme. When combined with community-focus and social responsibility, we find the company's prospects to be very compelling.*

Isolating the Opportunity Set

Convergence of technology across industries

As highlighted above, we have several actionable themes woven throughout the portfolio at any given time, with multiple sectors & sub-segments converging. The companies themselves are also becoming more specialized and are increasingly focusing on niche markets which necessitates a thorough validation on the part of the investor.

Conducting the requisite level diligence requires a rich mosaic and an informed view, which is often out of reach for many Generalists. On the other end of the spectrum, being good at deep science or engineering is very different than understanding product market fit and the realities of the operating environment.

We believe the magic is in the middle way...Our Operators have lived the challenges and opportunities that our portfolio companies face. We aim to spot the breadcrumbs of change before they become apparent to others (*our leading indicators*), while tracking the important metrics we know matter and ignoring the empty calories.

When applied correctly, this combination of **deep domain expertise, practical operating experience, tenured portfolio management, and diversity of thought,** leads to unique views which manifest themselves in a non-consensus, change-oriented portfolio.



Catherine Nicholas
Managing Partner/CIO



Lisa Wheatley, Partner
Healthcare Specialist



Monika Garg
Technology Specialist



Conclusion

Our firm is guided by the view that ***the old investing playbook needs updating***. Investing based on siloed knowledge and reliant on homogenous views does not represent where our industry is now and certainly not where it is going. We say this as not only as Investors, but also as ***Operators and Owners***.

We manage our clients portfolios in the way that we would want ***our*** money managed and with substantial principal capital invested alongside clients, ***we are aligned***.

History has proven that it pays to bet on human ingenuity and innovation.

Disclosure: Nicholas Investment Partners, L.P. (“Nicholas”) is an independent investment adviser registered with the SEC. Registration with the SEC does not imply a certain level of skill or training. The firm maintains a complete list and description of performance composites, which is available upon request. Policies for valuing portfolios, calculating performance, and preparing presentations are available upon request. Past performance is no guarantee of future results. No part of this material may be copied or duplicated or distributed to any third party without written consent.

Nicholas does not guarantee the success of any investment product. There are risks associated with all investments and returns will vary over time due to many factors such as changing market conditions, liquidity, economic and other factors. The value of investments can go down as well as up, and a loss of principal may occur. Although Nicholas attempts to limit various risks, risk management does not imply low risk. All risk models are inherently limited and subject to changes in economic, political and market conditions, as well as changes in the strategies’ holdings, among other things, which could affect the risk profile of any portfolio managed by Nicholas. Small- and mid-cap companies may be subject to a higher-degree of risk than larger more established companies’ securities. The liquidity of the markets for these small and mid-cap companies may adversely affect the value of these investments. Concentrated or sector strategies are expected to maintain higher exposures to a limited number of securities or sectors which could increase the volatility, market, liquidity and other risks of the strategy.

Some information herein reflects general market commentary and the current opinions of the author which are subject to change without notice. It is provided for general informational purposes only and does not represent investment, legal, regulatory or tax advice and should not be construed as a recommendation of any security, strategy or investment product. There is no guarantee any opinion, forecast, or objective will be achieved in the future. The information, charts and reports contained herein are unaudited. Although some information contained herein was obtained from recognized and trusted sources believed to be reliable, its accuracy and completeness cannot be guaranteed. Unless otherwise noted, Nicholas is the source of illustrations. References to specific securities, issuers and market sectors are for illustrative purposes only. Nicholas does not undertake to keep the recipients of this report advised of future developments or of changes in any of the matters discussed in this report.

Nicholas used third-party information in the preparation of this report. While Nicholas believes the third-party information was obtained from reliable sources, we cannot guarantee the accuracy, adequacy or completeness of the information obtained from these sources.

ABOUT US

Nicholas Investment Partners, L.P. is an independent, employee-owned and majority women-owned investment boutique focused on investing in dynamic, less efficient markets such as US small- and mid-cap equities and convertible bonds. We believe that change creates opportunity. We invest in dynamic companies with accelerating revenue and/or earnings growth in which our research confirms the company’s growth is sustainable and the company’s stock is a timely investment. Our edge comes from combining fundamental equity and credit research with the objectivity and efficiency of quantitative analytics. We have a results-driven and client-centric culture centered on building lasting and value-added relationships with a select group of institutional and private wealth clients and consultants.