HIGHLIGHTS FROM GARY BLACK'S INTERVIEW ON MONEY LIFE WITH CHUCK JAFFE

This is a transcribed excerpt from the October 14, 2021 interview

Chuck Jaffe:

Gary Black, managing partner at The Future Fund is here. We're talking futuristic stocks now on the Money Life Market Call.

My guest has been on the show, but not for a very long time, and he is with a different firm, in fact, a new one. Gary Black, who you might remember from his days at Janus, is the Managing Partner at The Future Fund, which is an ETF that trades under the ticker FFND. You can learn more about him, the fund and more by going to futurefundetf.com. And I am very pleased to say, Gary Black, welcome back to Money Life.

Gary Black:

Thanks, Chuck. Great to be with you.

C**huck Jaffe:**

Tell us methodology, because that's always where we start, but The Future Fund is based around

methodology. It's not the kind of thing where we're going, "Oh, it's growth fund, and we'll explain it," it's an entire concept from the very beginning. So, explain how it works.

Gary Black:
Sure. The Future Fund, is a high conviction, growth ETF. It's an active ETF. We have about 40 names that we try to capitalize on what we call 10 secular mega trends that are changing the world. And so, we look for companies that leverage one or more of these mega trends and you'll recognize them; 24/7 information entertainment, social media replacing traditional media, e-commerce replacing bricks and mortar, mobility; everything's on your iPhone today. Big data; everything's going to the cloud. FinTech; so cashless society. People living longer, so artificial limbs and drugs that will keep you living until you're over 100. A trend we call, "Lifestyle betterment," which is fitness, travel, looking better, feeling better automation, and then climate sustainability. And those are the big mega trends we look for. And then within those mega trends, we look for growth companies with high and expanding total addressable markets. We want companies that have either a superior product, or a breakthrough technology, or an unleveraged brand that you could take to a new category or geography. And that's the first criteria we look for.

The second criteria we look for is just investment controversy. And that always sounds strange when I say that to clients, but we want something where there's a fight. We want something where you can identify, and clearly articulate a controversy that's causing a disconnect between what we think a company is worth, and where it's priced at, and where we, using proprietary research, we can get an edge at exploiting that controversy, and I can talk about a name or two in a minute of how to apply that.

Chuck Jaffe:
Yeah, but before you get there, you talk about roughly 40 high conviction names, and you got 10 ideas. Do you try to make it that you're balanced across each idea? Or if you find nothing that's going to meet your growth criteria, nothing that's the right in one of those areas, are you 40 names without one of those ideas being represented?

Gary Black:
It's a great question. We're not benchmark constrained, and we just look for names that can capitalize

on those mega trends. And usually, the names we find, sometimes they just play off one of those mega trends like climate sustainability, but others that we own will have more than one of those trends. And we don't force ourselves to own at least one name or four names in each trend; we look at those trends as being tailwinds, so they have good volume growth, usually good pricing, good margins, because of the tailwinds. And then we try to find names using our investment process. We look for at least two to one upside, downside, on a risk adjusted basis. We look for a potential double in sales or EPS over the next five years.

And we look for bets that are, directly to your question, that are uncorrelated. We don't want all the names to act the same on any given day, which there are other growth funds out there that sometimes do that; all the names seem to behave together. But we want to be growth, we're classic growth managers, we want to use proprietary research, we want to use our buy and sell disciplines, but we want to make sure that we have enough diversification in those 40 names, so that when one name is working, maybe the other name's not working because we don't want everything all going up or down at the same time. And so far, we've done a pretty good job since we launch. We're happy with the investment process.

Chuck Jaffe:
Let's also talk a little bit about some of the names that are in there and what's poster child for the methodology, because you've talked about where you like to go. And the thing that maybe people are familiar with is that you have been pretty active and outspoken when it comes to Tesla. And it's not a secret that, if I had to sum up the people who disagree with you on Tesla, their feeling about the company, meanwhile, you are feeling about the company.
Explain why it is that there's a lot of Tesla bears, and you are distinctly not in that crowd?

Gary Black:
Tesla (ticker: TSLA 7.22% of portfolio as of 10/08/21) is a very controversial name. There's no in between, either you love of it or you hate it. And the people who hate it, to me, start with valuation. They look at its PE multiple is, using 2021, it's 160 times. And what I always tell people, "If you're going to invest in growth stocks, you can't look at trailing 12-month PEs, or even current year PEs, because you're buying into the future; that's the whole definition of growth investing." And what I love about Tesla, and I've

owned it since about 2019, the set-up is similar to 2019; it's almost like Deja vu. And in 2020, Tesla went up sevenfold. And I think we've got a similar opportunity in front of us.

Listen to the interview from 42:50 to 47:00 to hear Gary Black's further analysis of TESLA

Chuck Jaffe:
We've got the picture and I don't mean to cut you off, but I have to ask. Because when you're talking about these kinds of things, you're talking about stocks that make the future, that's clearly a case that's going to say, hey, I'm going to be in this stock for a long time. So, what makes you sell? What have you had to move away from? I mean, the fund is brand new. So, it's only been around for a couple months. But what ultimately is the sell methodology?

Gary Black:
Well, I think one of the things that sets us apart is we have a very strong sell discipline, which you need to have as a growth manager, right? Growth is not for the faint of heart when you're buying stocks with our average PEs about 45 times, our growth rate we're looking for is 15 to 20% per year. You got to be right and you got to get the quarters right. Our sell discipline is one of four things.

One is the investment philosophy, the reason we own the stock. It just changes. Our thesis changes, and we just realize we're wrong or something happens that causes us to rethink it. That's the number one reason we sell. And, look, as an analyst, former analyst, you make mistakes, right? So, if you make a mistake and you realize it, you get out.

Second, which is a more successful thing, is stock works and it hits your price target. And one of the things we do is we try to own stocks with at least 30-40% upside. So, we come up with the value. We go out to 20, 25 or longer if we have to, usually earnings, but sometimes we use cash flow if there are no earnings, and we put a multiple on it based on the future growth which we discounted back.
With someone like Tesla, I have a very high discount rate because it's got a lot of risk attached to it. It's got a lot of volume attached to it. And we come up with a price based on present value, and we compare it to what the existing price is. And we look for something with 30%, 40% upside. And so, if it hits our price target and Tesla's moved up, and the reason our price target might move up is if earnings change and we keep raising our price target on Tesla because the earnings keep going up. We pull up a

chart on Bloomberg, you can look at earnings are up 50-60% this year. For this year, we're up about 30-40% for next year. Once it hits our price target, we get off.

Chuck Jaffe:

Okay. So now we've got a good idea how it works. We're going to get to our Quick and Dirty take on some stocks that my audience is particularly interested in.

Gary Black is the managing partner of The Future Fund and, yeah, he and I are kind of going back to the future, because he hasn't been on the show in a long time. But he's here now talking about The Future Fund. And if you want to learn more about FFND, The Future Fund Active ETF, go to futurefundetf.com.

[People calling into the program asked Gary Black to comment on the following stocks]

Gary Black:

Harley (ticker: HOG 1.87% of portfolio as of 10/08/21) Harley's probably one of our slowest growers, but it's very cheap. And the reason we own it in our fund, actually, is because they're going into EVs on the motorcycle space. So, they have a live wire product we think is going to gain share. They're selling it about 10 times 2022 earnings, and they're growing about 7-8% per year. They have a new CEO and he's changing the whole business. So, we like it.

We like Match (ticker: MTCH 2.74% of portfolio as 10/08/21). Match plays off the megatrend social networking. It's got about 15 million paying customers. It's growing about 15% a year in terms of new subs. It's raising its prices, what it charges those members, by about 10% a year. So, it's putting up about 25% revenue growth. It trades about 50 times earnings. It's got Tinder and it's got Hinge, and as COVID disappears, and it's slowly disappearing as vaccinations become common in everybody, we think Match's growth rate's going to continue to accelerate as people go back out and get on the market again.

We love Palo Alto (ticker: PANW 2.37% of portfolio as of 10/08/21). It's one of the largest network security players. And again, the megatrend is big data. As more and more stuff goes into the cloud, as more and more firewalls are needed, as more and more protection is needed to make sure that people aren't breaking into your data network, it's one of the biggest players. It trades at about 60 times earnings. So, it looks a little expensive, but it's growing its revenue at 25% a year. So, we like Palo Alto.

Tencent (ticker: TCEHY 3.21% of portfolio as of 10/08/21) is one of the largest internet providers in the world. It's got about a billion two active users. In the US, a lot of folks don't know about Tencent. They have a platform called WeChat. Another platform called QQ.

The controversy on Tencent is that the government's been cracking on video games, especially among people under the age of 18, which is about 3% of their users, but it's dirt cheap. You can get Tencent today because of the controversy surrounding it. About 22 times earnings. It's growing revenue 20% a year. So, it's one of the cheapest, large cap growth names that we can find. So, we like it.

Google (ticker: GOOGL 5.09% of portfolio as of 10/08/21) is one of our largest positions as well. It's, again, very cheap. Trades about 25 times earnings, 25 times next year's earnings. It's growing revenue 16-18%. For people who are cutting the cord, if you've got kids or even young adults that are living in your household, they're not watching conventional TV. They're watching YouTube. They're watching Netflix. And YouTube is just gaining tons of share. They have about 80% of the search business. And, of course, they have the cloud.

So, we think this is a great growth. It's been hit recently because of the whole Facebook controversy, for lack of a better word. It's been down in sympathy, but we think it's a great opportunity to buy Google at a pretty cheap price.

Chuck Jaffe:
Gary, this was great. Please don't stay away six years before we get a chance to do this again. Come back and let's talk more about the future with you down the line.

Gary Black:
Thanks, Chuck.

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