



Hutchinson CAPITAL MANAGEMENT

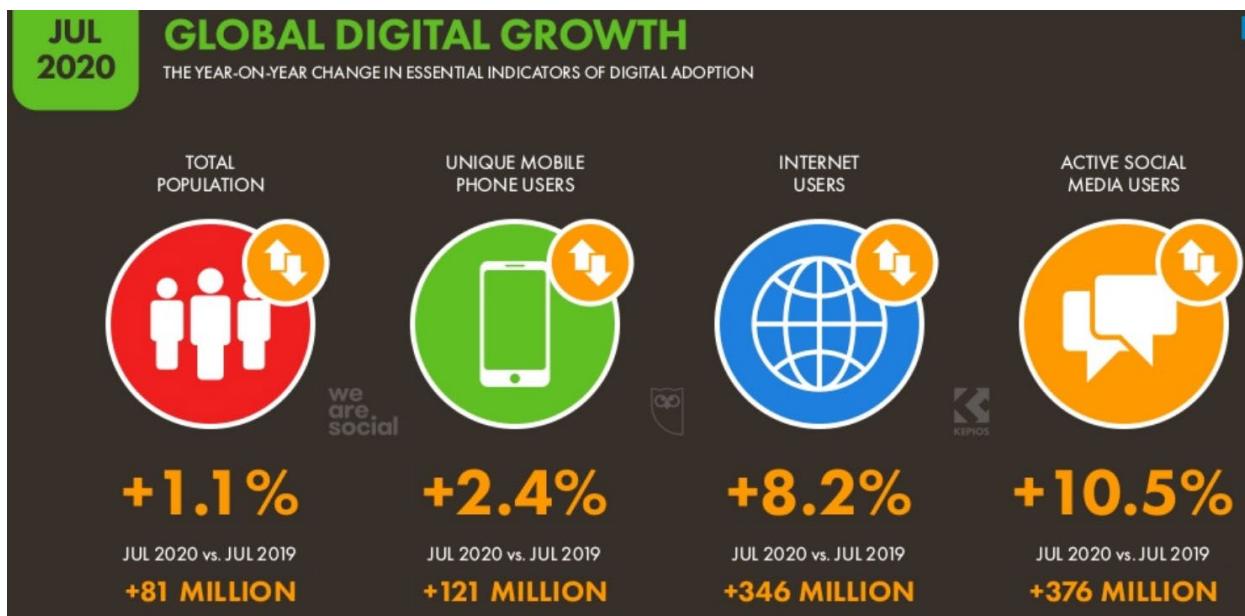
October 2020

The Rise of NEW Utilities

“Many shall be restored that now are fallen and many shall fall that now are in honor.” - HORACE—ARS POETICA (Security Analysis)

Our economy is subject to more rapid changes now more than ever before. One such change that we are seeing is the rise of a new set of utility companies. Through this note, we will discuss such companies, their characteristics, and how your portfolio is structured for this change.

The traditional utility companies are the ones whose services are required, and provide predictable, and, in most cases, recession-resistant revenue streams. The services provided by such companies include the power to our homes. Nonetheless, the past two decades have seen a change in our consumption patterns of information that has resulted in new required services. That is because our lives are becoming increasingly digital. Whether it's mobile banking, bill payment, buying groceries, or hailing a car, we've come to depend upon digital tools. While this change has been happening for some time now, the advent of Coronavirus has further accelerated this phenomenon. Digital capabilities are far more important than ever during the current health crisis as they enable us to manage our daily lives and work from home. As more people are discovering the convenience and safety of these digital tools the adoption is increasing. This has led to a rise of *digitally-focused* companies whose services have become indispensable. Specifically, we think there are three sets of “new utilities”: a) internet providers, b) search engines, and c) smartphones.



Source: <https://www.slideshare.net/DataReportal/digital-2020-july-global-statshot-report-july-2020-v01>

As our world is becoming increasingly interconnected, the need for fast, reliable, and secure internet access has become essential. Think about it: what is the first service you think about when moving to a new home, going to a hotel, or during a layover at an airport? For most people, the answer is being connected to the internet (apart from power). Not so long ago, high-speed internet was an expensive luxury, but it has quickly evolved into a necessity.

It's not about calling anymore



It's about being online 24/7



Source: <https://www.slideshare.net/RJAdegroot/de-impact-van-mobile-en-internet-of-things-op-direct-marketing>

While the internet is the backbone of every digital activity, getting to the right place is the beginning of our digital lives. This is where search engines have created enormous value. There are millions of websites providing information on every facet of our lives. However, it is nearly impossible to remember every website name; that is where search engines have become useful. You can pose queries such as “Nearest Mexican restaurant”, “Closest dentist”, “Today’s weather”, “Nearest gas station”, and you will get answers instantly. Thus, thinking about navigating the internet without a search engine almost feels impossible. In effect, search engines make our digital lives easier to navigate, without charging anything!

A little over a decade back, if you wished to talk to somebody, listen to your favorite song, capture a family picture, check your email, or browse the internet, you needed to buy four devices, namely, a telephone, music player, camera, and computer. In addition, simply owning those devices didn’t necessarily mean that you could bring them everywhere with you. Today, you can fulfill all those wishes by buying one device that can fit into your pocket! If we take a step back and think, this has been a period of incredible human innovation.

At HCM, we are always looking to learn. Studying the phenomenon described above made us believe that internet connection, internet search products, and smartphones are the new utilities. While there are many uncertainties in the stock market, the new utilities of the digital world have predictable demand. In the internet connection space, there are cable companies. Cable companies are interesting as they depict monopolistic characteristics in their footprints. For example, usually, a large cable company like Comcast doesn’t compete with another similar size player such as Charter. Also, cable companies have recession-resistant revenue streams similar to traditional utilities.

In the internet search space, we have multiple tech companies offering their services for free. However, the soundness of the underlying technology and continuous data gathering create a self-fulfilling prophecy for a successful product. Such is the case for Google. In the smartphone space, while we have multiple hardware companies trying to get consumer attention, it is product quality, value proposition, and price that win consumer’s hearts. That is why Apple’s iPhone still has the highest mind share among users and software developers.

We believe the digital force with additional thrust from Covid has given birth to a new set of utilities, and a few specific companies will be beneficiaries of them. Thus, we think your holdings of Cable One and Charter Communications in the internet connection space, Google in the internet search space, and Apple in the smartphone are well placed to capture their share in their respective areas as our lives become more digital.

PLEASE SEE IMPORTANT DISCLOSURES BELOW:

As of September 30th, 2020, Hutchinson Capital Management (HCM) held:

171,200 shares of Apple Inc (AAPL)
108 shares of Comcast Corporation (CMCSA)
211 shares of Alphabet Inc. Cl C (GOOG)
6,266 shares of Alphabet Inc (GOOGL)
17,907 shares of Charter Communications, Inc. (CHTR)
7,080 shares of Cable One, Inc. (CABO)

As of September 30th, 2020 (Prices in USD unless noted otherwise)

Apple Inc (AAPL) closed at \$115.81
Comcast Corporation (CMCSA) closed at \$46.26
Alphabet Inc. Cl C (GOOG) closed at \$1,469.60
Alphabet Inc (GOOGL) closed at \$1,465.60
Charter Communications, Inc. (CHTR) closed at \$624.34
Cable One, Inc. (CABO) closed at \$1,885.43

As of September 30th, 2020, the following were the ten largest holdings of HCM:

Name of Issuer	% of Equity Portfolio	09/30/20 Closing Price
Apple Inc	5.93%	115.81
Berkshire Hathaway Cl B	5.90%	212.94
Microsoft Corp	4.91%	210.33
Bank of America Corp	4.74%	24.09
Intel Corp	4.34%	51.78
Markel Corp	4.27%	973.7
Merck & Co Inc	4.14%	82.95
Progressive Corp	4.09%	94.67
CVS Health Corp	4.04%	58.4
Jacobs Engineering Group Inc	4.02%	92.77

For a complete list of holdings, please see our most recent 13F filing on the following SEC website:

<http://www.sec.gov/edgar/searchedgar/companysearch.html>

HCM's investment decision making process involves a number of different factors, not just those discussed in this document. The views expressed in this material are subject to ongoing evaluation and could change at any time.

Past performance is not indicative of future results, which may vary. The value of investments and the income derived from investments can go down as well as up. It shall not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities mentioned here. While HCM seeks to design a portfolio which reflects appropriate risk and return features, portfolio characteristics may deviate from those of the benchmark.

Although HCM follows the same investment strategy for each advisory client with similar investment objectives and financial condition, differences in client holdings are dictated by variations in clients' investment guidelines and risk tolerances. HCM may continue to hold a certain security in one client account while selling it for another client account when client guidelines or risk tolerances mandate a sale for a particular client. In some cases, consistent with client objectives and risk, HCM may purchase a security for one client while selling it for another. Consistent with specific client objectives and risk tolerance, clients' trades may be executed at different times and at different prices. Each of these factors influence the overall performance of the investment strategies followed by the Firm.

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