

PORTFOLIO ACTIVITY

No new positions were added to DM equity mandates in September and none were liquidated.

FEATURE STOCK

Fortinet Inc. (FTNT)

In late August, we funded a new position in FTNT by selling homebuilder, DR Horton Inc. (DHI), which had more than doubled since our original purchase three years ago. FTNT is a global leader in cybersecurity, known for its dominant position in firewall solutions. Over time, the company has expanded into a broad range of cybersecurity products, all unified within a single operating system. FTNT is financially robust and operates in a growing industry, driven by increasing cyber attacks, cloud adoption, remote work, and heightened C-suite awareness. As a major platform player, the company has also benefitted from the consolidation of cybersecurity vendors, which has allowed it to improve its offering in an increasingly complex threat landscape, especially given the shortage of skilled professionals. FTNT serves a diverse customer base across various industries and regions and is characterized by a recurring revenue model, strong margins, and solid free cash flow generation; it also remains founder-led by Ken and Michael Xie (CEO and CTO), who have established a track record of strong capital allocation and continue to operate the company with an owner's mindset, an attribute that helps to align company and shareholder interests.

"IT'S THE ECONOMY, STUPID"

Those words were famously delivered to his charges by James Carville, Bill Clinton's campaign strategist, as the 1992 race for the White House entered its final days. A year earlier, George HW Bush had enjoyed a 90% approval rating amongst Americans following the US military's successful reversal of Iraq's incursion into Kuwait; but now the economy had dipped into recession and household focus was shifting to the pocketbook. Carville knew his history – *until 2020, no modern US presidential incumbent had lost reelection without the country being in recession* – and that hammering on the economy represented Clinton's best chance.

By the time we distribute next month's letter, a new president will have been selected and, though neither candidate is a true incumbent, Kamala Harris is certainly tied (and is being tied) to the record of the Biden administration. If this were a normal election cycle, the current state of the US economy and the previous government's stewardship of it would be a huge campaign asset:

- GDP growth remains firmly positive, with consensus estimates for full year 2024 having been revised higher twice since August
- Employment figures are strong, supported by a blowout jobs report last month, while the stock market keeps reaching new all-time highs
- The inflation spike that followed the covid shutdown has largely been tamed, allowing the Fed to cut rates for the first time in 4+ years
- On aggregate, households are more wealthy than they've ever been

But these aren't normal times, and as with virtually everything else, Democrats and Republicans are historically divided on their opinions of the economy. If inflation is the primary consumer concern, most wouldn't think of enormous tariffs, higher deficits, and the mass deportation of mostly low-wage workers (all of which come with the Trump platform) as helpful strategies, but even these potentially destabilizing proposals haven't caused many minds to be changed. Regardless of the outcome in November, it's safe to say that the economy (or at least its actual health) will have less of an impact on voting decisions than in any past election.

