CREDO WEALTH

Slow and steady wins the race

In February, we bought Progressive in the Dividend Growth Portfolio as well as the Credo Global Equity Fund. The world looked very different then and investors were still relatively sanguine about the impact of COVID-19, with global markets continuing to push higher.

Progressive is the third largest provider of personal car insurance in America. Originally offering personal and to a lesser extent commercial auto insurance, the company has expanded into homeowners and other aspects of commercial insurance. However, vehicle policies still make up over 80% of net premiums written.

Our original thesis for buying shares in the company centred around its high-quality track record. Progressive has shown an ability to generate above average growth and best-in class returns through the business cycle. This has been driven by leading data analytics capabilities, a superior digital platform and low distribution costs.

In recent years, the company has been steadily growing market share at the expense of its more traditional competitors, which generally have a greater reliance on insurance brokers to generate sales. However, Progressive's ability to go directly to consumers with a strong digital offering, both plays into demographic trends and allows for a lower cost business model. This, combined with excellent data analytics as mentioned before, has enabled the company to offer some of the best pricing in the market. We believed that these competitive advantages would endure and allow the company to continue to grow at a faster rate than the overall market. With the shares trading at a discount to the market on a P/E basis and paying a higher dividend yield, we took the opportunity to snap up this quality compounder.

Times change, although not normally as dramatically and so quickly! Since February, the international spread of COVID-19 has resulted in up to a 1/3rd of the global population under some form of lockdown and life has changed beyond recognition for lots of people. For many companies, the future now looks incredibly uncertain as revenue streams completely dry up and consumer demands radically change. For those of us trying to imagine what the future may hold, the changes in consumer habits forced by this period, present interesting questions. Also interesting are the parts of life that carry on unchanged. Finding companies where the net impact of the current outbreak is either neutral or positive is difficult.

With so many people no longer commuting to work, visiting relatives or travelling to leisure activities, the number of car journeys has fallen dramatically. However, demand for car insurance will not fall in the same way. Most consumers still need insurance to protect against large unexpected bills from accidents and theft. Moreover, in the majority of the United States, the purchase of vehicle insurance is mandated if a vehicle is driven on public roads. Despite travelling less, people will still need to be able to make trips to the grocery store, pharmacy and to perform other essential tasks.

As the number of car journeys has fallen, so too has the number of accidents and insurance claims representing a boost in profitability for insurers. As a result, some of the stronger players, Progressive included, have decided to refund a portion of customer premiums to enhance loyalty. We view this as a positive step by the company. Maintaining customer relationships is important if the company is to continue growing its market share.

Although there have been significant changes to the world in which we live, the reasons to own Progressive remain unchanged. Although perhaps not the most exciting investment thesis we have ever written, in turbulent times we are reminded of the appeal of steady and reliable as qualities.

Important notice