



## Beyond Transactions

Visa and Mastercard's strategic investments in technology are shaping the future of commerce, giving them a competitive edge and driving growth.



Payments have been a cornerstone investment of our Global portfolios for over a decade. We've been invested in Visa and Mastercard as we are confident in their ability to protect and grow earnings with a high degree of certainty into the future. This is driven by the quality of their business ('economic moat') and the structural tailwind of digitising consumer payments.

Economic moats rarely just exist. Management teams need to innovate to defend and strengthen their economic moat, a key criterion in our assessment of quality. Over the past decades, Visa and Mastercard have been innovators. Reinvesting in their network capabilities (reach, security and user experience) and investing in new capabilities has reduced the probability of disruption, protecting their competitive advantages of scale, network effects and high barriers to entry. As a result, Visa alone has generated 11% revenue CAGR and 16% EPS CAGR over the past decade.

While there remains a healthy growth runway from the structural tailwind of commerce digitisation, the digitisation of new flows and the network (via value-added services) are important growth vectors for Visa and Mastercard.

- **Digitisation of new flows:** Includes, for example, Peer-to-Peer, Business-to-Business and Government-to-Consumer. Remittances are an example of success, where Visa and Mastercard have been working with fintechs like Remitly, Wise and Western Union as key infrastructure partners. B2B partners have been slower to adopt new technologies. There remains a substantial opportunity to improve the speed and user experience of these flows, just as we've experienced in consumer flows. Visa and Mastercard are

well placed to benefit from the digitisation of new flows given their relationships with banks and the broader payments ecosystem.

- **Digitisation of the networks – value-added services:** Visa and Mastercard connect more than 4b credentials, 100m merchants and 15,000 financial institutions. This network provides Visa and Mastercard with a data advantage, which when combined with their innovation prowess leaves them uniquely placed to cross-sell services to network participants. Central to this growth opportunity is the networks' focus on improving the payment experience for consumers and merchants. This has the effect of improving the relationship between the bank and the consumer, and the merchant and their service providers. Examples of services include buy-now-pay-later, loyalty, personalisation, subscription managers, virtual cards and fraud detection.

This discussion should not detract from the importance of innovation and growth in consumer payments. Consumer payments make up ~70% of revenue and maintaining leadership in domestic and cross-border consumer flows is key to the investment thesis.

- **Cash to card conversion:** Covid accelerated the transition from cash to card in many developed markets. However, there are many economies where cash remains prevalent in commerce (for example, Mexico, Japan, Germany, Italy and Kenya). There are also opportunities in developed markets like Australia from the shift to e-commerce and the gig economy, which lead to increased value-added services revenues or an increase in the number of transactions.

## What could disrupt this tailwind and Visa and Mastercard's industry position?

- **Innovation and network security:** Tokenisation and biometrics are increasingly being used in transactions, improving the security of payments and increasing authorisation rates. Tokenisation is steadily replacing the need for a card number. Tokens are more secure, reducing fraud and benefiting all members of the network.


Notwithstanding Visa and Mastercard's current dominance, we are always monitoring potential disruptive threats. What could disrupt this tailwind and Visa and Mastercard's industry position? New networks like central bank real-time payment networks (e.g. FedNow in the United States, Pix in Brazil or NPP in Australia) are a threat to the incumbent networks. These networks, however, are not global and were established as P2P networks rather than facilitators of commerce. Enabling seamless, fast, ubiquitous and safe commerce is critical to drive consumer adoption. Central bank networks are slow to offer these features, making it challenging to compete with the Visa and Mastercard networks that offer a fast, ubiquitous, global and safe network, plus rewards. The challenge of driving switching in the face of an innovative incumbent should not be underestimated.

Visa and Mastercard's growth opportunities, and the disruptive threats, were central to our conversations with C-suite and management teams of the digital payments ecosystem (networks, acquirers, issuers, processors and fintechs) on our recent research trip to the United States. In our conversations, it was clear that the value-add of Visa and Mastercard's network and technology to customers was unrivalled. Pleasingly, this is not lost on Visa and Mastercard. The networks prioritise innovation that constantly improves the payment experience, benefiting all network participants. Overall, we continue to view networks as high-quality businesses that will deliver attractive returns to shareholders.

We currently hold positions in Visa and Mastercard across our Global Equities and Global Thematic Strategies.

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