What Growth Investing means to us

Growth Investing

Growth investors typically invest in growth stocks i.e. companies whose earnings are expected to increase at an above-average rate compared to their industry sector or the overall market. However, over the last 10 years the definition of growth has had significant overlap with other styles such as Quality, Thematic and Momentum. Additionally, the horizon for growth investing has been extended due to low interest rates i.e. the terminal value has become a larger component of the stocks valuation as the discount rate applied kept falling.

In fact in many cases stocks which were unlikely to experience earnings or cash flows at all were classified into the growth style bucket. However, these types of companies are more likely to represent Thematic or Momentum style investing and were often fuelled further by passive investors as market caps grew without having the underpinning of earnings.

It is our view that investors will be more discerning in a rising and/or moderate rate environment, in identifying companies likely to grow their earnings above the rate of industry or GDP growth. Whilst market P/E multiples are likely to be challenged, companies with earnings growth visibility are likely to be rewarded.

India Avenue Equity Fund

Our Fund has encountered a more difficult period relative to its benchmark in 2022 YTD. This has been driven by the Fund's Growth style bias, which is aligned to our philosophy:

1) India is a high growth region relative to other geographies
2) There are several growing addressable markets in India where ***investing with the winners*** in each industry is more likely to produce better long-term results via compounding earnings growth > GDP, market and industry growth.

Our Fund is advised by three unique investment advisers located in India. These advisers all have stellar track records as investment firms with strong pedigree for understanding local economics, corporate ecosystem and knowledge of who the winners might be. Therefore we choose to partner with our advisers as a key aspect of our proposition.

Over time we expect foreign and local investors in Indian equity markets to seek these faster growing companies which are establishing market share in growth industries.

Earnings Growth of the Portfolio

Portfolio vs Nifty 50	FY22/FY21 Growth %	FY22-24 Growth CAGR
India Avenue Equity Fund	48%	24%
Nifty 50	42%	16%

Whilst we expect these earnings growth numbers to fall due to the handbrakes of higher inflation on growth, they are well above the expectations of the top 50 stocks in India (which represent approximately 70% of market cap in India).

The Nifty 50 has fallen 16.3% from peak (18th January 2022) to trough (16th June 2022). **Assuming zero earnings growth instead of 16% annualised as expected over the next two years,** places the Nifty-50 P/E at 19.9x. It is our view that economies like India and China have a far greater propensity to recover (China through stimulus and India through lesser inflation, oil and improving productivity) once inflation is curbed and growth starts to slow globally, with potential recession in parts of the developed world.

Portfolio Characteristics vs Benchmark

Characteristic	IAEF	MSCI India Benchmark
Revenue Growth (3-yr historical)	15.5%	13.4%
EPS Growth (5-yr historical)	16.1%	13.6%
Dividend Growth (5-yr historical)	21.6%	16.3%
Net Profit Margin	28.5%	17.4%
Operating Profit Margin	32.4%	22.1%
ROE	21.9%	18.9%

The comparison to our benchmark illustrates that the portfolio not only is likely to experience stronger growth relative to its hurdle, but it is also higher quality growth given our focus on businesses which are likely to prosper in adversity and grow their market share given their inherent characteristics.

Our Concluding Views

Whilst it is impossible to predict market bottoms during times of risk-off sentiment / fear, **it is our view that given the following factors, exposure to India in a global equity portfolio with a long-term construct make sense from a risk-return perspective**.

- India has low correlation to other regional markets like Australia, US and China
- A significant representation of the market in India is from earnings and cash flow generating companies rather than hyper growth stocks fighting for market share, but low on profitability
- Volatility of earnings growth in India is far lower than cyclical highs and troughs of equity markets like the US, Australia
- Additions to Indian equity exposure during points of global duress are likely to benefit long-term returns for equity investors i.e. GFC, Taper Tantrum, COVID-19
- A growth aligned philosophy (relative to the benchmark) should provide additional return to investing in a passive benchmark over the next 3 years