
GROWTH INVESTING

Client Director Stuart Dunbar explains why focusing on innovation and ignoring short-term market fluctuations is key to backing future winners.

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Stuart Dunbar: Growth investing is about buying companies that are under-appreciated by the market relative to their future earnings. In our case, it's about looking forward several years, trying to understand how the world is changing, and which companies might create newer, better business models or products, and are well-placed to take advantage of that change.

Sometimes, it's about working with technologists, or entrepreneurs and academics to try to figure out what's becoming possible that didn't used to be, and how society is responding to that, and what investment opportunities that may create. It's about understanding which companies have long-term competitive advantages that give them sustained pricing power, and we look carefully for those that are investing wisely today to create the profit growth of the future rather than today. It's really not about fixating on short-term share prices, we don't spend all day looking at stock markets.

In essence, our whole approach is based on the observable fact that most investors are intolerant of uncertainty and have short time horizons. It is this very uncertainty of looking five years or more ahead that puts most investors off and creates the opportunity for us and our clients to make large returns if we're right about how a company can develop in the long term.

Investing in growth can, though, require some real stoicism. One of the characteristics of how we invest is that when uncertainty levels in the world generally are high, the values of growth stocks can fall quite dramatically, as investors focus only on the here and now as if there's never going to be any growth again. But, in the end, consumer behaviours and business models always change to reflect the new things that are becoming possible, and growth will accrue to those companies that are robust enough to survive short-term challenges, and that are on the right side of change.

This is how progress happens, regardless of the swings that everybody can observe in politics and economics and inflation. So, we don't pay much attention to those types of variables.

Some examples of where we are looking for growth in the coming years might help to illustrate this. We think our world is still in the foothills, for example, of applying synthetic biology to a next generation of manufacturing processes. Gene sequencing and artificial intelligence can



revolutionise and personalise medicine. The energy and ecommerce revolutions are well-known, and our financial system is now evolving rapidly, facilitated by improving cloud technology and security. All of those areas we are fascinated in and we think have much further to go. We think those who try to understand this process of change, embrace the uncertainty and focus on the long-term are well placed to benefit.

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