



Growth Investing: A Q&A With David Eiswert

A decade of insights and excitement for the return of price discovery.

December 2022

KEY INSIGHTS

- It has always been important that our investment framework is robust, repeatable, and difficult to imitate.
- Being active and identifying idiosyncratic stock ideas will be key to generating alpha for our clients.
- Looking forward, we are excited that the market is returning to a state where price discovery and stock fundamentals begin to matter again.



David Eiswert

Portfolio Manager, Global Focused Growth Equity Strategy

David Eiswert recently marked his 10-year anniversary of managing the Global Focused Growth Equity Strategy. We met with him to discuss how he has managed the strategy through an unprecedented period for equity investors. He talks about the lessons learned, describes his investment process, and explains why he believes his investment framework is robust enough to create repeatable alpha for clients.

Q. What was your aim for the strategy when you began, and what lessons have you learned?

It is important to think about what we have learned, but also what can we do better and how we can evolve to become even better investors. We have been through huge changes over the past 10 years, and many of the events that have happened no one could have predicted.

When I took over the strategy, I had been running our Global Technology Strategy for some time, and I received pushback from some corners as there was a belief that I would fill the portfolio with fast-growing tech companies and neglect everything else. But that was never my aim for the strategy. I knew the strength of our global research platform and what it could bring. I spent a lot of time in the early days speaking with other portfolio managers and analysts from across the platform. That really helped me develop an investment framework that could help to generate alpha across all sectors and industries. It has always been important, however, that the framework is robust, repeatable, and difficult to imitate.

Q. How would you describe that investment framework, and can you characterize your investment style?

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in the future, but we don’t want to pay too much for them. The aim was to build a strategy that would give us the best chance to repeat alpha, but not have it imitated by just buying a group of the 50 fastest-growing stocks at the time.

Risk management is also extremely important. We don’t want to overexpose clients to any particular risk. That means not having large style or country bets. It also means having insights about how a specific business is changing and how the industry may be changing, while at the same time measuring how good the management team is in that business. At times, however, we also want to be carefully contrarian. We don’t need to invest along with the storytellers when valuations are too expensive. We want to do more than just understand trends; we want to know when to buy individual stocks.

Finding those idiosyncratic ideas is what we do best, in my opinion. That means being active but also testing and perhaps going against market sentiment when it is appropriate. That is the way to find the best ideas to include in the portfolio. Having that laser focus on fundamentals and finding insights about improving economic returns is what can differentiate you from the pack and add value for clients.

Q. What have been your biggest investment successes?

We are proud of how we’ve managed the portfolio. Successful execution has relied on embracing both the complexity and changes that have happened in the world. Implementation has not been easy or without risk, however. We have lived through an extraordinary period in financial markets: from a global financial crisis and a period of low inflation, low growth, and ultralow interest rates through to a pandemic, a war in Europe, and, now, decade-high inflation and aggressive monetary tightening.

Throughout all of this, we have tried to consistently apply the need to look through periods of caution, given they invariably act as sources of opportunity.

This has been especially true when looking to identify discounted entry points for compelling and rare businesses. Staying engaged with stocks during periods of distressed sentiment has been important to fully benefit from the transition in sentiment from “despair” to “hope.” While it is always tempting to wait for patterns of recovery to be established, history teaches us that the early identification of fundamentals stabilizing, or the “stop getting worse” point, is central to return generation. This requires an active and forward-looking approach as a starting point, but it also requires a strong belief that your fundamental analysis and understanding of a company are correct.

Q. How important is stock selection as part of the investment process?

Stock selection is what the team and I focus on each day and is where I believe we have a competitive advantage. We have a global research platform that continues to help us find new and investable ideas in what is a huge opportunity set.

To take full advantage of the potential for outsized gains from stock selection and the dimensions of change we see, we typically hold between 60 and 80 companies, representing the firms in which we have the highest level of conviction regarding expected future growth. This may sound narrow in an investment universe of thousands, but delivering conviction and making hard choices about which stocks to own is part of my responsibility as a portfolio manager.

Q. The environment has become tougher, especially for growth investors. How are you dealing with the current market volatility and the potential regime change underway?

The world has been so extreme over the last few years and, at times, our framework has struggled, but not because anything has been wrong with it. There have been events that no one could

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have predicted. The environment is very different today from where we were even last year. You shouldn't expect to deliver alpha from the same 20–30 stocks that you did before. You must recognize the changes and try to put your clients on the right side of that change.

Going into 2022, we thought that the world would start to normalize as we started to live with COVID. We also expected the U.S. Federal Reserve (Fed) to start removing liquidity and tighten monetary policy. But what we didn't expect was the invasion of Ukraine and the massive spike in commodity prices that followed. This was on top of the COVID distortion shock that had yet to dissipate. Instead of the Fed raising rates in a stable way, spiraling inflation led the Fed to start removing massive amounts of liquidity from the system and begin raising rates aggressively, causing panic and a massive risk-off environment. This caused a significant repositioning into areas of the market that could benefit from higher inflation and higher interest rates. That shift in focus also came at the expense of long duration growth stocks, which experienced exceptional levels of volatility.

However, for conditions to improve, we don't necessarily need the Fed to cut rates to make risk more attractive. We just need them to slow the pace of hikes. That could create the pivot that investors are looking for to determine the “stop getting worse” point. Inflation rolling over would also potentially provide a reset for growth stocks, especially for those with the ability to compound and grow earnings through the next stage of the equity cycle.

Q. How do you see the market environment going forward, and where do you see opportunities?

After an outstanding period for equity investors, higher inflation, tightening liquidity conditions, armed conflict, and the unwinding of pandemic-era extremes imply higher risks and ongoing market fluctuations going forward.

The challenge many investors have today is not new, however—separating long-term expected returns from short-term narratives and concerns.

Importantly, volatility has historically proven to present opportunities. Indeed, we are observing a broader opportunity set than we have for some time. Innovative, high-growth companies are trading at much more reasonable valuations, while idiosyncratic stock ideas not tied to broader market direction are also a focus. Geopolitical and macroeconomic uncertainty will remain part of the near-term environment, but long term, stock prices are ultimately driven by changes in earnings power and cash flow generation.

It is also important to remember that we don't have any signs of systemic risk in the system. We don't have a credit bubble or a debt problem. Governments have borrowed a lot, but the private sector is in relatively good shape. That makes us believe that if we were to suffer a recession, it would likely be a milder one. The sharp tightening of monetary policy will likely create challenges for the global economy, however. This, we predict, will lead to a broader dispersion of stock returns and a need to position portfolios with this regime change in mind.

At a stock level, we are focused on investing in businesses that we believe will continue to get better, whether that be in technology, energy, fertilizer, the UK, or even China. Importantly, the market is evolving into a more idiosyncratic setup rather than a COVID on/off, growth/value type of market. That means we are looking to produce a portfolio that isn't going to be pulled around by specific factor swings. This is also the type of market we can do well in as price discovery and stock fundamentals begin to matter again. We believe using our investment framework and stock-picking skills can create the best opportunity to deliver alpha for our clients going forward.

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