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# A QUARTET OF WAYS TO FIND GROWTH

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We believe growth comes in many different shapes and sizes. So why settle for just one when you can choose the Monks Investment Trust and let us help you find four different ways to seek out growth, all at the same time?

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*This film was produced and approved in August 2017 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.*

*A Key Information Document for Monks is available by visiting [www.bailliegifford.com](http://www.bailliegifford.com).*

**Charles Plowden (CP):** Monks quite simply is a best ideas portfolio chosen from right across the world looking for exceptional growth opportunities.

**Malcolm MacColl (MM):** Long-term capital growth is very much the priority over income.

**Spencer Adair (SA):** We deliberately design the portfolio to be diversified, that helps us smooth out the inevitable booms and busts.

**CP:** We think that growth comes in many different shapes and sizes and we've subdivided the universe into four different categories.

## STALWART

**MM:** One of the primary characteristics that we are looking for within the stalwart businesses is actually the strength of the brand. Often that's one of the things which will make that individual company stand out over a very long period of time.

**CP:** Growth stalwarts typically sell daily products like chocolate, chewing gum, beer.

**SA:** Our stalwarts are classic long-term compounding businesses. They get rich slowly. They build wealth over many years and many generations.

**CP:** These sort of companies are not glamorous. They are not going to be the fastest growing, but they should be the very reliable steady growers and they form the engine room of the portfolio.

## RAPID

**CP:** Rapid growth stocks should be among the fastest growing stocks in our portfolio. Very often they are immature, early stage companies building a market from the bottom up.

**SA:** So they are typically young, they are carving out their own niche. They are developing their own market or they are attacking an existing incumbent.



**MM:** I think one of the reasons why rapid growth stocks are often mispriced is because a lot of investors are put off by near term high valuations and they don't see through to the long-term growth potential of these businesses.

**SA:** We would anticipate over the next five years, our rapid growth companies grow between 15 and 25 per cent per year.

## **CYCLICAL**

**MM:** Here we are dealing with both economic cycles and also often supply side cycles that being where industries are going through periods of perhaps expansion and contraction or periods where there is heightened competition or even consolidation. And it's often consolidation, which we think can drive major returns within cyclical businesses.

**CP:** There are two reasons that we like these companies. The first is if we can buy them at the trough of their cycle, we can get accelerated growth as the cycle improves. And the second point is that we are looking for company managements that can hold on to their firepower and use it at cheap points in the cycle rather than at the top.

**SA:** And it's inevitable that some of these companies will have two or even three years of periods when their earnings fall. We accept that because we know that the next peak will be even higher than the last peak.

## **LATENT**

**CP:** Latent growth stocks are stocks that most in the market would not think of as growth stocks. They are typically companies with a poor history of profitability that may have made no progress for a decade or more.

**SA:** Looking backwards, these companies are terrible, but our research has identified a key change and that change means the future is going to be a lot brighter than the past.

**CP:** Very often this is a change of strategy, a change of management and particularly a change of industry structure where consolidation has led to reduced competition, reduced overcapacity.

**MM:** What we are trying to do with these businesses is to allow catalysts to work, to allow the underlying operating performance to improve significantly.

**SA:** Forecasting exact earnings growth rates are notoriously difficult for latent companies. What we can be sure of, is that earnings are going to accelerate and in the future will be a factor of two, three or even four times higher than they have been in the past.

**SA:** These four growth categories have got different performance styles and paces, but whenever you blend them together something special happens.

**CP:** And we believe that the portfolio that we have put together has the potential to produce above average performance over very long time periods.

**MM:** I think that Monks is a unique growth portfolio, but it's also one which is very well balanced in nature. One that can sit right at the heart of an individual's investments.

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