GQG's Rajiv Jain on bold moves, growth of capital and global markets

Goldman Sachs Exchanges: Great Investors

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Betsy Gorton: Welcome back to another special edition of Goldman Sachs Exchanges: Great Investors. I'm Betsy Gorton from the Goldman Sachs Asset & Wealth Management business and your host for today's episode. I'm delighted to be joined by Rajiv Jain, Chairman and Chief Investment Officer of GQG Partners, a global boutique asset management firm focused on active equity portfolios. Since Rajiv co-founded the firm in 2016, GQG has grown to more than $100 billion in assets under management. We'll be discussing Rajiv's career and his approach to managing portfolios, as well as his views on the macroeconomic and investment landscape. Rajiv, welcome to the program.

Rajiv Jain: Betsy, it's great to be here. Thanks for having me.

Betsy Gorton: So to get started, let's talk about GQG. You co-founded it with Tim Carver in 2016 after you had a star run at Vontobel. Walk us through your thought process at the time of founding around your intentions and goals for GQG. And tie that back to where you are today.

Rajiv Jain: It was quite a fun and fulfilling journey at Vontobel. Fulfilling because every product that we managed added significant value, whether it's Asia, far East Asia, European equities, international, and so on and so forth.

However, I had begun to feel that I could improve the game. And for that, I needed to basically revamp how I'd done historically. I know it's difficult to do because everything is working fine, why bother? But my personal view is life is a journey and you've got to have fun doing what you're doing. And I thought the timing was right in terms of how many years I'd already been at Vontobel. So, that's how I started. The other part of that journey was two different aspects. One was to build an institution that will outlive us. It's easier said than done. But that was a desire, to build an institution that can outlive us. The second part was building one of the most client aligned boutiques in the business. Because what I've noticed is that in this business, talk is cheap. So, we don't allow any personal trading. I have almost all of my net worth, and so is Tim Carver's net worth, invested in some shape or form as an owner of GQG now in our portfolios. And the third thing was building the team from scratch to improve the game.

So, that was my biggest motivation. I made a lot of mistakes, investing mistakes, over my career. The question, what have I learned and how do I improve it? And for that, nothing better than starting with a clean sheet of paper.

So, in fact, I remember meeting a lot of folks who had known me and asked me, "What would you do differently?" Would it be the same A, B, C, rinse/repeat as you've done before?" I said, "No, no. It won't work that way. There are certain things I would like to repeat. But there's a whole host of things I don't want to repeat. And this is what-- how I would do it."

One of the other lessons was that I'd become co-CEO at the end of my tenure at Vontobel. And for sure I did not enjoy that because there's a clear difference between what is needed to be a good CEO versus a good CIO. I enjoy investing. That is my passion. And so, we made a clear separation between what I call church and state. And to be clear, I said to Tim, I said, "You are state. I'm the church."

Betsy Gorton: And how has it been relative to what you thought it would be?

Rajiv Jain: Again, it's been far better than I would have ever predicted, to be very clear. But I think more importantly, the fulfilling part has been the caliber of the team that we've assembled now. And the results that we deliver for our clients.

At the end of the day, one has to remember that this is quite a fiduciary duty because somebody's retirement is at stake. So, if you add 200 - 300 basis points, it could make a big difference to somebody's retirement. And I think that ethos has been a very important part of how we think and behave.

Betsy Gorton: In just over six years the firm has now grown to more than a $100 billion dollars in assets under management. It's a remarkable feat. Congratulations.

Rajiv Jain: Thank you.

Betsy Gorton: From our vantage point, part of your success is from making bold moves, such as significantly reducing consumer staples in the 2016/2017 period. Or reducing some of the growthier tech names in late 2021 and adding to energy. What is your process for making these bigger moves in the portfolios?

Rajiv Jain: Yeah. First of all, these moves are not as frequent, although over the last few years they've been more frequent. And that's much more to do with the market conditions rather than us doing it.

The way we think about it is that it's reading the reward signs. So, if the fundamentals start deteriorating a little bit, we start acting very rapidly. Because the problem is that you don't know how deep the valley is. I mean, in 2007/'08, if you didn't start cutting back financials, you would have lost 90 percent plus. And we can always say we didn't see it coming. But they've got enough signs.

What is hard to predict is the depth of the valley. And our view is as soon as you're seeing signs of deterioration, start reacting because every longer-term deterioration also starts with the shorter-term deterioration. That leads to us cutting back rapidly.

Now, the flip side is that most of the time there's some areas where the fundamentals are improving. Think about energy two years ago. You could find businesses selling at high single digit valuation, almost triple A balance sheets, fantastic, 100-year-old organizations that had been through the test of time selling at very attractive valuation at 6, 7, 8 percent dividend yield. That made no sense.

On the other side, there was this meme mania going on with the tech world people thought they were going to change our lives. Not many people change our lives. So, that there was an easy switch.

So, the reason why we move around, and I think that's an important part of our longer-term risk/reward is when fundamentals start changing, you've got to keep reacting rather than being dogmatic. Because it's very easy to go into your own cocoon and say, "Oh, these are good businesses and we'll be fine long term." The problem is, it might be too late by the time you realize that the businesses are structural decline.

Betsy Gorton: And you invest in global markets. Many think of you of emerging and international developed markets as your specialty. You cut your teeth, I think, investing in emerging market equities in the 1990s during several EM crises, including the Mexican peso crisis in 1994 and the Asian financial crisis in 1997. How did those experiences shape you as an investor? And do you adjust your analysis at all when you're looking at companies and stocks in emerging markets?

Rajiv Jain: It did shape my thinking a lot because what happens is in the middle of a crisis, or as you enter a crisis, what has done well typically flips. The second thing is you also become much more macro aware.

US has been unique in a number of different ways where the macro cross currents have been less, but not immune. 2008/2009 GFC is a very good example. But if you go back to the '70s, you saw the oil embargo create a whole different sort of risk. So, I think that did shape my thinking in terms of making sure that you're not missing the obvious macro inputs: banking system issues, inflation issues, so on and so forth. And they actually can help you protect a lot better.

It's very convenient to say we don't care about macro. That's wonderful. But macro may be where the tsunami might be coming from. So, we do it in corporate debt.

So, the investing in emerging markets gave me a much healthier sense of the downside, which sometimes is not fully appreciated in developed markets. And, obviously, the macro side.

The other question that you asked was how does the process evolve? If I look at my own process, it has evolved dramatically over the last ten, 15, 20 years. And I believe that is the important part of survival, so to say, in this business. It has to be adjusting to incorporate new thinking.

For example, a few years ago I thought that the traditional way of quality, which is backward looking, is being arbitraged away. There are plenty of ETFs that are doing exactly that. And hence, the valuations are becoming excessive for the growth rate these businesses are generating. It was becoming too convenient. And I thought the markets would begin to price that in. And I thought the valuation [UNINTEL] has to become more important. Now, that maybe had changed again.

The second thing is the longer-term capital markets cycles have to be incorporated in that. And that I began to appreciate more and more in terms of under investment and over investment. Energy, for example, you're seeing massive under investment. That means those returns will be a lot better. Software, probably returns will be a lot lower.

I think evolution, learning from mistakes, and then keep adapting, I believe is critical. The process we apply today is actually dramatically different than what I probably would have said 20 years ago.

Betsy Gorton: And then from a portfolio construction perspective at a portfolio level, so you were investing in Russia at the start of 2022. It didn't work out how you expected it would. But talk to us about how you thought about sizing of the position and any natural hedges that were in the portfolio from other positions.

Rajiv Jain: There are two aspects of that. Because India historically has been very dependent on imported oil. So, the vulnerability has been oil price spike. That actually gave us comfort in having high Russia exposure because Russia is a direct beneficiary, right? So, from a sizing perspective, the in-built hedges, that's how we think about it. What will the cross correlations be because that determines your downside protection issues. Otherwise, you can make just one-sided bet if you're bottom-up investors. And I've seen a lot of bottom investors make this classic mistake of being very bottom up and not incorporating these sort of macro cross currents.

Now, on the Russian side, we thought that we were getting paid a lot. The dividend yields were double digits in some cases, 20 - 25 percent plus. Basically, debt free companies. And we thought these would be hard to sanction. Obviously, we were wrong.

The interesting thing is that the business themselves had just done perfectly fine after the sanctions. So, they have thrived. But in the meantime, obviously, we lost. We had to markdown whatever we had. But we did cut back quite a bit in January/February.

So, our sizing is that whenever you buy anything, it's that if you are wrong, if you lose 50 percent, how would it impact the portfolio? What is the exit strategy? Can we exit these names? What about the methodology?

So, we do try to scope out our exit strategies in some of these kinds of names or areas. Because I do feel that simply saying not investing is also not a good strategy because how do you find inefficiency in large cap names globally? You simply can't do that.

Betsy Gorton: So, talk to us about how you've been thinking about positioning in 2023. Where do you see the opportunities and the risks in the current environment?

Rajiv Jain: So, 2023 we started still very underweight tech. And pretty overweight energy, along with some other areas. As time has passed, because of what's happening on the AI side, we believe that the tech cycle might actually revive sooner than we would have predicted, six, nine, 12 months ago. We started the year with massive underweight in tech. Now we are at a meaningful overweight in tech, particularly because of what's happening in the AI side. There will be some winners. Not many winners. But there will be some winners.

Betsy Gorton: In technology, how do you think about the opportunities for companies based in the US versus outside of the US?

Rajiv Jain: So, predominantly, they'll be US winners, but there will be some, like in Taiwan a couple of companies, in Europe a couple of companies, in Japan a few companies. So, there will be some winners.

Now, obviously, we're in early stages of AI. So, the users of AI, there will be some winners too. But it's harder to predict the companies who are able to just manage the data better. You know? Like in some insurance companies, property and casualty insurance companies did very well coming out of dotcom because they adapted using the internet, for example. So, tech has become a much more important part, particularly the largest cap tech. We still also like some of the pharma names because I think the innovation in the pipeline is actually quite meaningful, whether it's on the obesity front or what have you.

I think the third big area would still be energy and basic materials. I think the whole notion that we can live without fossil is not grounded in reality. And fossil demand is back to record highs. But the world is not investing enough. So, these cycles are built on under and over investment. So, we are still very bullish in commodities.

For example, the more people talk about EV, the base metal, the copper, etcetera, they're not adding enough capacity. For example. Or lithium or what have you. So, we're quite bullish on these few areas on a go-forward basis.

Betsy Gorton: And you've been bullish long-term on India. Can you talk to us on how you're thinking about that market right now and maybe vis-à-vis your thoughts on China as a comparison?

Rajiv Jain: These are two different markets. If you look at China, we have seen very strong corporate earnings growth in very few companies. So, if you look at broad based China, actually corporate earnings have not been as strong as they might be perceived.

The second part is that the government intervention has been very aggressive on the private sector side. So, we're nervous about that. And there's a long history of Chinese government intervening in both public and private sector, if those businesses are becoming almost too powerful. From China Mobile 20 years ago to toll roads, power utilities, education companies, gaming companies, Macao. So, there's a long list. But it doesn't mean we are structurally bearish on China because I think these things will ebb and flow.

India, on the other side, the corporate earnings growth has been remarkably resilient. Now, what is making me more bullish, now clearly at the risk of me being biased, is that the government intervention on the private sector tends to be very light. The checks and balances in the system. But this current administration, the Modi administration, has actually done a very good job of executing on the infrastructure side, which is reducing friction in the economy in a meaningful manner. That, we believe, should actually jump start growth much more than what the markets believe.

The second part with India would be that it's already becoming a major market. I think what is not appreciated is that if, let's say, Germany is on a $2 trillion-dollar market cap, India is now almost $3.5 trillion-dollar market cap. This is a large market where corporate earnings to it are almost high single/low double digits. So, we feel there are some fantastic opportunities. But it's a very stock pickers market.

Betsy Gorton: On that note, the investment team you lead is just over 20 people at this point. Help us understand the philosophy that you developed around building a team and what characteristics you look for when you hire people.

Rajiv Jain: It has been one of my observations as an industry participant for almost three decades is that most of the teams end up being almost too cohesive. I like friction. And the question, how do you create healthy friction? And for that, one of the things I did from the get-go was hire folks who have worked a lot of different jobs.

Now, you do want folks who are home grown, so to say, and train them, and so on and so forth. There's one major negative of that, which is they almost reduce friction because they think alike. But most of the jobs we try to bring in folks who are young and train them, and so on and so forth. There's one major negative of that, which is they almost reduce friction because they think alike.

But if you hire people who are, let's say, 20 years in the industry. Have worked at five different hedge funds. Three long-only shops. Chances of them agreeing with you is zero. Or almost zero. And that creates healthy debate and discussion. That was the first part of that. And that is why I did not bring anybody from our prior team because I'd trained them and there are positives of that. But there are negatives of that. So, that creates a culture of healthy debate and discussion. There will never be the name where somebody's not aggressively trying to short the name. We don't do shorting, but in a thought process perspective. So, I think that is probably the most important differentiator which I thought from the get-go was important to bring in the team.

The other aspect of building investment teams is truly about diversity. And not just diversity in terms of the backgrounds, but also what kind of profession they're coming from, etcetera. So, we have hired a number of folks who actually didn't even come from the industry. For example, some of them are former investigative journalists. And they essentially criticize everything we do.

So, it's fun to see the debate, how some very talented journalists go at it in terms of criticizing names that we either own or we're looking to own. But they typically talk to the ecosystem, not exactly the management.

We've also hired folks with some long/short background. Forensic accountants. Private equity. And so on and so forth. So, it's actually a remarkably diverse team. And my personal view is I would rather have folks within the team criticize our name than the markets because if the markets criticize a name, that's much more expensive.

Betsy Gorton: So, GQG, Global Quality Growth, flush out for us what those words mean to you in isolation and then together as a unit.

Rajiv Jain: We obviously operate globally. We truly think globally. But quality, I think, is an interesting one because, again, my view is that the vast majority of folks when they talk about quality, it's a backward looking, static view of quality. So, they basically look for consistency, historical consistency. Which may have nothing to do with forward-looking quality.

So, when we say quality, it's where the business is going to be five years out. And is it improving or deteriorating as long as they have high barriers to entry? So, for example, we have had significant exposure the last few years in energy. Mostly folks have said the quality would never buy into energy or cyclicals. We actually embrace cyclicals because some of these businesses are essentially irreplaceable. For example, you try setting up a new steel plant in Europe. I would say that has far higher barriers to entry than a typical software company. So, quality is much more forward-looking.

And growth is actually not growth sort of stylistically. But growth of capital. So, it's much more absolute minded. So, when we say growth in part of the GQG it's growth of capital. So, we are much more absolute minded rather than relative minded. And because we have no money with any other money manager, personally a bulk of my almost entire net worth invested in GQG in one shape or form, so, I think that becomes much more important to compound our and our clients' capital, rather than growth as a style.

Betsy Gorton: When you look at that growth element of this, is there a timeframe that you're thinking about it over or wanting to see it happen over?

Rajiv Jain: So, we take a three- to five-year view. And our view is that with should be able to compound at a reasonable rate of return. Which means that it should be at least a few 100 basis points, if not better than the index. But much more absolute number, hopefully high single digit/low double digits.

Betsy Gorton: One of the key tenets of your investment philosophy is to protect capital in down markets. So, how do you identify companies that can do that, but also achieve growth?

Rajiv Jain: So, there are two aspects of investing. One is the inherent quality of the business. And second is what you're paying for that. And I've always been amazed, everybody focuses on quality, but not enough on valuations, particularly the growth side. However, if you focus too much on valuation, that's a problem too.

And it's not always equally important. Sometimes growth is all that matters. And sometimes valuation is all that matters. So, we need to sort of dial up and dial down based on a bunch of different factors. And we've tried to quantify a lot of different things.

So, what we try to do is if in a certain type of regime, and there's a macro input here, in certain type of regimes do you feel that valuation sensitivity would be greater? We tighten up. If you're driving at a very fast speed, you're much more likely to tap on the brakes aggressively versus if the road is clear, you have to worry less about the tapping on the brakes. And that is much more dynamic.

That leads to finding businesses which at certain point not only have quality attributes, but they're very attractively valued. For example, in a rising inflation environment, your game plan should be a little bit different. And that allows you to protect better in certain markets. And we've seen that in the last two years. A lot of quality growth managers simply were driving, in my opinion, at very high speed without necessarily having any sense of what the braking capabilities of the vehicle were. So, that's the dynamic between the two things.

Betsy Gorton: Let's go full circle now. Take us back to your early days. You grew up in India. You started trading stocks in high school. What interested you about investing at that young age? And how did you find your way to a career in asset management?

Rajiv Jain: So, it was almost like an accident. So, my dad gave me a few things to keep me busy during the summer break, as such. And that was to make sure that we got all the dividends of the stocks. Because the physical checks were coming. Or mailed those days. And that's how I started.

At that time, you basically had the phone. You had to call the broker or go to the office, right? And I remember there was a senior broker where I was living. He would say, "I need to talk to dad. How come they allow somebody in 12th grade to come to my office? That shouldn't be done." But that actually got me hooked on pretty early days.

And the second part is a bull market helps. So, these things you get hooked on bull markets when everything is going up. So, that was one of my first forays in a bull market. That sort of got me hooked.

Betsy Gorton: So, you moved to Florida in 1990 and then to New York in 1993 when you started to look for a job on Wall Street by cold calling firms. So, how did you land that first job?

Rajiv Jain: Yes. It's a funny story because I did not know anybody in the business as such. So, I just took up the CFA directory and started cold calling people. And I would make a spreadsheet to say, okay, this person seemed responsive. And this one's not really interested. And that's how I ended up at UBS at that point. So, the CIO, he picked up the call and said, "It's interesting. Nobody really calls me. So, I would love to meet you because nobody really calls me directly like you did." So, that's how I ended up getting my first job.

Betsy Gorton: That's great. All right, to wrap up here, let's do a lightning round. Quick answers. What was your very first investment?

Rajiv Jain: It was actually a company called Grindwell Norton. That was multinational. Small cap. It still is a small cap, which was an old industrial.

Betsy Gorton: What's the biggest lesson that you learned from an investment, either one that went well or sometimes we learn the best lessons from ones that didn't go as well?

Rajiv Jain: I think the biggest lesson always is could I be more open minded about exploring opportunities and/or moving away from things that have worked well?

Betsy Gorton: Which investor, living or dead, do you admire the most?

Rajiv Jain: I think there are a few of them. There's not just one. Some obviously, like Buffett and Peter Lynch, etcetera. And some are just actually from other areas, not from investment who have taught me a lot about how to just think about not just investing, but life.

Betsy Gorton: Is there any sector that you feel is not getting enough attention right now?

Rajiv Jain: I would still say energy is one area which is not getting attention. And this is one of the largest parts of the economy. And any sort of shocks in that could basically shut down economies. So, that's a critical sector which is not getting enough attention.

Betsy Gorton: What's the best piece of investment advice that you could give our listeners that you wish someone had given to you early on?

Rajiv Jain: I think the biggest one would be more open minded. Be willing to explore things. Because the cross pollination could be pretty powerful. And it's easy to become comfortable with what has worked for you. And that's a regime issue. So, if you, for example, started investing in post GFC, there are certain sectors that did very well. But that doesn't mean that's the place to be for the next 20 - 30 years. When you talk about career, you'd better know almost every sector.

Betsy Gorton: And finally, what are you reading?

Rajiv Jain: It's interesting. So, the book that I'm reading, which is an old book, *Iron Lady* on Margaret Thatcher. And the reforms that are taking place in some markets, while parts of Europe actually is going back, it's very similar to what happened in the '60s and early '70s. And then what Margaret Thatcher came and dismantled a lot of those stuff. So, I actually thought it would be cool to read, actually, how things evolved in the UK in that era.

Betsy Gorton: Rajiv, it's such a pleasure to speak with you. Thank you for joining me on this podcast.

Rajiv Jain: Betsy, it's great to be here. Thanks for having me.

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