Nasdaq

AOTG Offers a Growth Strategy with a Different Twist

AOT Growth and Innovation ETF (AOTG) is a high growth portfolio that focuses on valuation metrics and a unique marginal cost target for companies that the fund invests in. John Tinsman, AOT Invest's Founder and Portfolio Manager, explains what sets AOTG apart from other large-cap growth funds.

Tinsman discovered his passion for the securities market while studying economics at Northwestern University and working simultaneously for a family office. Upon graduating, he landed a job at as a market maker at a proprietary trading firm. Later, he applied his knowledge to create growth strategies and invest in mutual funds on behalf of his family business, Twin State Inc., a wholesale fertilizer supplier based in Iowa.

Tinsman did not want to just match the performance of an index; he wanted to achieve above average growth. Yet, he observed that some of the top holdings in funds in the growth category were growing under 7% a year. He also noticed many other companies included in growth portfolios had short operating histories, low revenues and high valuations, so in his view, there is significant risk that their profits are not going to materialize over the long haul.

"I thought that I could make a better high growth portfolio than was out there today, and that eventually led to starting AOTG," he says. "You have great high growth opportunities out there in profitable companies with longer operational history, which can help mitigate downside risk."

The fund's strategy is to buy low marginal cost companies that are well positioned in growing industries. It costs these companies little or no money to produce one additional unit, so they can scale the business profitably and quickly with less capital expenditure. As Tinsman explains, a software company can sell an additional product license at a low or no cost. In contrast, for an aircraft manufacturer to ramp up production, it must invest in plant, equipment and staff. This difference helps low marginal cost companies grow without debt, allowing them to allocate more future resources to product innovation instead of servicing debt – and that is a benefit for investors.

"Low marginal cost companies over time have been able to achieve some of the best profitability ever seen," says Tinsman.

> "Some of the most profitable companies in the history of the world are Microsoft (MSFT), Apple (AAPL), Alphabet (GOOGL), Meta Platforms (META) and Amazon (AMZN). It's not a coincidence because they can sell incremental units of their product at almost a 100% profit rate."

Innovation not only drives economic growth but also the appreciation of a company's value and its share price. To this end, AOTG seeks to invest in highly innovative companies that reinvest profits back into improving their products and expanding their offerings. The fund's key focus is on long-term growth, but Tinsman only wants to include companies that provide value to clients, employees, shareholders and others and do not act against stakeholders' best interest.

Technology is the largest sector in the portfolio, followed by communication services, consumer cyclicals/discretionary, financial services and healthcare. Most of the companies in the portfolio are based in the U.S., but some are based in Latin America, Asia, Europe and Canada and are listed on U.S. exchanges. The fund does not invest in ADRs or REITs.

At first glance, AOTG's top holdings are the same large-cap companies one often sees in growth portfolios, including Alphabet, Microsoft and Amazon. But the fund's top holdings also include Qualcomm (QCOM) and Advanced Micro Devices (AMD) – companies that have been growing at 35% to 80% a year. They are already earning billions to tens of billions of dollars a year, and they have relatively low valuations considering their profitability and growth rate. Working down the list, there are some unique mid- and small-cap names as well that differentiate AOTG from other growth funds. Among them are Sterling Check (STER), Toast (TOST), LendingClub (LC) and DLocal (DLO).

Sterling Check leverages software to perform background checks and screening for employment. According to Tinsman, this software company is undervalued because it has been growing at 30% a year and net increasing its net income at a even faster rate.

It has revenue of roughly $800 million a year and a market cap of $2 billion, putting the price-to-sales ratio around 2.5.

"That's pretty rare for a software company, especially one that's profitable and growing quickly," he points out. "If you were to compare that to other software companies, you wouldn't really see such a great valuation metric and growing profitability."

Toast offers a restaurant point-of-sale and management system, which encompasses payment processing, hardware and software. Essentially, it is a one-stop-shop for restaurant owners. The company has been growing revenue at 58% year over year, and it has a relatively low valuation. As the company has grown, its profit margins have been moving in the right direction, and it is narrowing its losses. Toast is losing $0.11 a share, and its profit margins are coming close to break even.

LendingClub is a peer-to-peer lending platform with a bank charter. The company is highly profitable, and it is growing revenue quickly. DLocal offers payment processing for businesses across Latin America and Africa. The company has a net profit margin of 30%, and revenue growth of 71%. Other names in the portfolio include Remitly Global (RELY), Magnite (MGNI), Silvergate Capital (SI), MercadoLibre (MELI), Paylocity (PCTY) and Tyler Technologies (TYL).

"These companies have such a great value proposition to their employees, shareholders and users that I believe their value and quickly evolving products and services will continue to propel their growth into the future," says Tinsman.

Growth companies' valuations have fallen significantly, and in many cases their share prices have fallen by 20% to 60% year to date. Ironically, many of these companies have been growing their revenue and achieving record profitability, and yet their stocks have been punished as their entire sector has fallen. Tinsman sees a good opportunity to identify those companies with a good long-term story based on their ability to innovate and achieve low marginal cost in growing industries, and include those companies in the fund.

Investors can learn more about AOTG and view the fund holdings at AOTETF.com.

Investors should consider the investment objectives, risk, charges and expenses carefully before investing. For a prospectus or summary prospectus with this and other information about the AOTG ETF please call (215) 882-9983 or visit the web site at aotetf.com. Read the prospectus or summary prospectus carefully before investing.

Investments involve risk. Principal loss is possible.