Investment strategy document

Introduction

This document provides guidance on how to analyse potential investment opportunities. The aim is to define a standard data analytics approach that can be used to evaluate an investment opportunity. The approach should be followed when performing analysis on an investment opportunity and considering the relevant metrics and questions to be addressed.

Financial performance

The financial performance of any company that we potentially plan to invest in is a significant consideration. In order to maximise return on investment, any potential investment should demonstrate its profitability before investment. When considering an investment, we are interested in:

- net profit on sales of 10%
- year-on-year growth in sales of 25%.

In addition to confirming our key financial requirements for investment in any potential company, it is important to perform a deep dive into the individual product lines and regions. In particular, we want to understand if there are any causes for concern or areas that show promise. Any areas identified should be raised and discussed. This includes identifying the best performing and any underperforming:

- countries
- regions
- products or service lines.

Forecasted financial performance

As well as looking at a company's historical sales, performance and profits, we consider it vital to forecast the financial performance for future years to help understand and assess whether the financial performance is sustainable.

Therefore, it is recommended that the sales and profits for any potential investment opportunities are forecasted for the next 12 months. An estimate of profits and sales for next year should be stated with an upper and lower bound given for the estimation. The inclusion of the upper and lower bounds allows for a more reliable sales forecast to be produced and shows the variability of the estimations.

The potential for the growth of a business into the future is important to consider when analysing an investment opportunity. Therefore, it is also helpful to indicate the potential sales growth of a company over the next five or more years. Again when considering an investment, in terms of forecasted performance we are interested in:

- net profit on sales of 10%
- year-on-year growth in sales of 25%.

Other considerations

Our investment strategy is to invest in fast-growing, sustainable and ethical global firms. We have covered the growth and sustainability of growth in the financial performance. However, we also believe that it is important to consider other factors alongside financial performance when assessing an investment opportunity for Vision Capital.

Control environment

As a reputable private equity firm, it is of utmost importance that we invest in companies or organisations that don't bring any reputational damage to us as a firm. We understand that not all control environments will be as developed as we would like. However, we need to perform due diligence to understand the strengths and weaknesses of the control environment. If there are any additional costs for improvement in the control environment and business transformation, we would need to know about these costs before deciding whether or not to invest.

This includes examining whether the control environment is in place to enforce segregation of duty for the posting of journals in line with the delegation of authority matrix. With regard to manual journals, we want to understand whether there are any anomalous journals that could indicate mistakes or weaknesses in the organisation's existing control environment or be indicative of fraudulent behaviour.

Ethical implications

We are an ethical investment firm. Therefore, ethical issues that may impact investing in the company should be raised and considered throughout the analysis. As an ethical investor, we make use of data in accordance with strict ethical guidelines. Every investment opportunity is subject to an ethical review to prevent reputational damage for Vision Capital and to avoid investing in an organisation with unethical practices.

All analysis and decisions about an investment opportunity must be clearly supported by data with a clear rationale.