

Feature: Global Growth

There is a fundamental belief that stocks follow profits over any measurable period of time. So it is no wonder, investors look for companies where they think profits are, or will soon, accelerate. Catalysts driving profit acceleration include external forces, such as technological breakthroughs or regulatory changes, or internal forces such as a new management team, a new product cycle or a restructuring. Finding companies at an early enough stage in their profit acceleration cycle, in order to capture as much of the resulting growth as possible, is fundamental to the success of investors.

History has shown the current environment of low interest rates and low inflation tends to be an environment where multiple expansion over time is often seen. If you look at valuations

company; some type of intellectual property or patent if it is a technology or medical company; and, lastly, companies which have dominant market share.

Positive profit cycle

Growth investing in our view, is also about finding high-quality franchise companies which are experiencing a positive and sustainable profit cycle. Often these profit cycles are tied to an important secular trend occurring within an industry. Examples include technological developments, demographic shifts or new regulatory policies. It is therefore essential to be aware of not only the best companies, but also the most important secular trends occurring within their industries on a global basis. When we find a company tied to a very interesting secular growth trend, we work to identify other companies in that industry which are also benefiting from the same trend.

Man versus machine

Today there are a handful of secular trends proving particularly fertile for some of the more innovative growth businesses. The first example is industrial process innovation or what we call 'man versus machine', which is currently a strong theme within the industrials area. Precision technologies and systems which increase quality, synchronise information systems and speed throughput to lower production costs are driving profit growth in a number of companies. Hexagon, for example, is a Swedish provider of design, measurement and visualisation technologies. Its solutions are used for increasing productivity and speeding design engineering.

In the energy area, a secular theme we refer to as 'the golden age of gas', is based on the belief natural gas is poised to play a much greater role in the global energy mix over time (see graph, below).

The shale gas revolution in the US is a great example of a trend which is likely to occur in other geographic regions as well. We believe this is a long and pervasive trend certain businesses are in a position to take advantage of. Tourmaline Oil, a Canadian-based exploration & production company, and Anadarko Petroleum, based in

Houston, Texas, are two companies with significant exposure to natural gas well positioned to benefit from this.

Emerging market consumers

The growing importance of the emerging markets consumer is another secular trend we are following very closely. Rising incomes in developing nations are driving demand for a variety of products and services, which in turn is positioning many high-quality companies in these countries for future profit growth.

Tsingtao Brewery, for example, is the number two brewer by volume in China. With a growing middle class and rising incomes, more consumers are trading up to higher, more aspirational brands, and Tsingtao is capitalising on that trend.

Sector specifics

In terms of sector specifics, four broad areas – technology, healthcare, industrials and consumer – are fertile with investment opportunities. There are many businesses within these sectors capable of a great deal of innovation and change over time.

Within the technology space, one area to watch is the changing infrastructure. Technological advancements, those once-in-a-decade type changes, are creating opportunities to completely re-architect the back office. Businesses like SAP or Salesforce.com are able to deliver software as a service, rather than as a large up-front sale.

In the healthcare sector, there are a number of innovation-driven franchises with strong profit cycles. Many are developers of breakthrough new medicines.

There is a bit of a renaissance for the pharmaceutical industry after a challenging decade. Companies are applying more scientific discipline in their research and distribution investments.

They are increasingly focused on higher-probability biologic drugs, and advances in gene sequencing are starting to unlock new promising drug targets.

Pharmaceutical companies with strong product cycles today, and robust research and development pipelines, have the potential to drive additional waves of growth long term.

The search for global growth

Jim Hamel, portfolio manager, Artisan Partners, explains why businesses undergoing profit acceleration are the key to finding growth

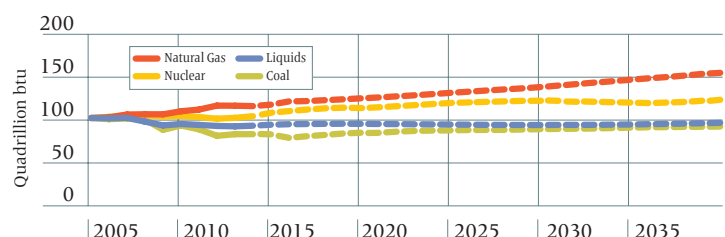
today, growth trades at a premium to value, which historically has been the case as growth stocks experience higher rates of growth, so you would expect to pay a higher multiple. But today's premium is very much compressed relative to history.

Google, for example, one of the most iconic technology companies in the world, is growing 20% at the top line and is selling at a meaningful discount compared to its historical average. We feel this has resulted in a market environment which presents a positive fundamental case for multiple expansion, and the potential for growth stock outperformance.

Franchise characteristics and secular trends

When it comes to investing, we evaluate whether a company possesses franchise characteristics, which we believe help to protect a company's stream of cash flow from the effects of competition. Companies with strong franchises tend to have defensible competitive positions and superior business models. Examples of franchise characteristics include: an iconic brand if you are looking at a consumer-oriented company; a low-cost producer if it is a manufacturing-based

Total energy consumption by fuel



Source: US Energy Information Administration (Oct 2012)

Carefully consider the Fund's investment objective, risks and charges and expenses. This and other important information is contained in the Fund's prospectus and summary prospectus, which can be obtained by calling 800.344.1770. Read carefully before investing.

International investments involve special risks, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs. These risks typically are greater in emerging markets. Securities of medium-sized companies tend to have a shorter history of operations, be more volatile and less liquid and may have underperformed securities of large companies during some periods. Growth securities may underperform other asset types during a given period.

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